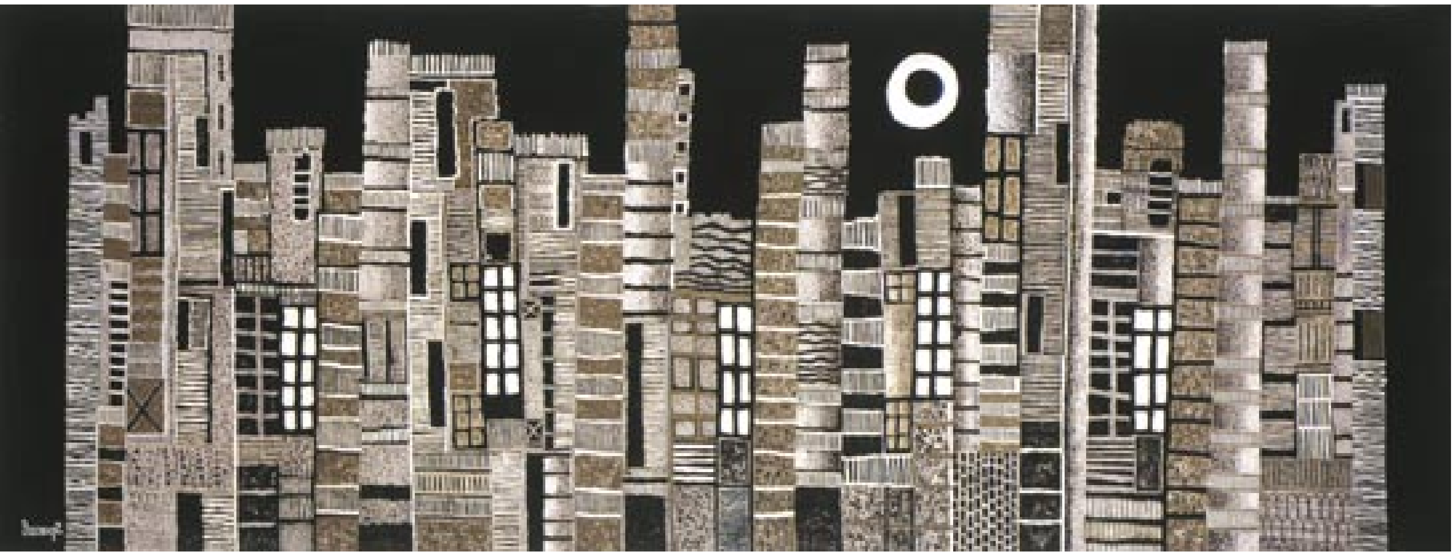
Banka Koper



ANNUAL REPORT 2003

Financial Statements prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2003

Koper, 31 March 2004

CONTENTS

Boats and houses I., 1st half of 1950s

1. KEY DEVELOPMENTS IN BANKA KOPER AT A GLANCE

The commercial profile and social community role of Banka Koper reflects the interweaving of a number of events and decisions, which have left a trace on its present character widely acknowledged as special and easily recognised. Versatility expected from a universal bank, as well as the openness to embrace all positive changes that the Bank has encountered during nearly half a century of existence, is deeply anchored in the domestic and international banking environment.

Whether as one-off events or processing with long-lasting effects, the most important events since the Bank's establishment have helped to channel its growth and development. Expanding across the regional border, rising to the status of a worthy partner in the former Slovenian banking system, its leading position among the banks when it came to developing modern services and distribution channels, a full scope banking licence, a new corporate image and focus on forging strategic alliances started a few years ago and completed in 2002, are the developments having far-reaching effects.

The mission - to boost the regional economy and spread across the regional borders

1955 - Regional operations of Istrska komunalna banka. The branch network starts to expand beyond the Bank's domicile.

1961 - Komunalna banka Koper is established for the pursuit of a wider range of banking operations covering several municipalities.

1965 - The branch network grows and new operations are provided through Kreditna banka Koper - a commercial bank with a new organisation.

1971 - Crossing the regional border and closer co-operation with other banks.

Building a new Slovenian banking system and launching the first Slovenian payment card - Activa

1978 - LB Splošna banka Koper joins a new banking system under the auspices of Ljubljanska Banka - Associated Bank.

1989 - The Bank is transformed into a public limited company and establishes a subsidiary - Finor.

1992 - The Bank leaves the banking system of Ljubljanska banka and markets the first Slovenian payment card - Activa.

On its own again, qualifying for a full-scope licence and launching a new corporate image

1994 - Splošna banka Koper becomes an independent bank. The Bank of Slovenia grants it a full-scope licence to provide all kinds of banking operations in Slovenia and beyond its borders.

1996 - The Bank expands its presence to the capital of Slovenia and puts in place a new organisational structure.

1997 - There is a new registered name and a new corporate image. Banka Koper opens a branch in Maribor. A banking group is formed with M banka and the commercial network takes its share of corporate banking.

The Bank spreads across the territory of Slovenia, cements its new corporate image and takes over M banka

1998 - The Bank gets a foothold in Nova Gorica. Important projects are launched - electronic banking i-Net Banka, information system for customers, migration of payment transactions for corporate and institutional clients to commercial banks, and overhaul of the information system.

1999 - Banka Koper acquires M banka.

2000 - There is a new management board composed of two persons and a new internal organisational structure. The Bank's shares are listed on the Ljubljana Stock Exchange.

A new phase in the Bank's growth - opening of new areas of operations and preparation for strategic partnership

2001 - The Bank sets up the Open-Ended Mutual Pension Fund and expands the scope of its operations. Focus on further growth and development, strategic partnership perceived as a step toward this goal. Preparations start for the strategic alliance with the financial group SanPaolo IMI.

2002 - The Bank joins the financial group SanPaolo IMI who acquires the controlling share. The new ownership structure means that the Management Board gets another member and the composition of the Supervisory Board changes. At the same time, the deal to dispose of the Bank's subsidiary Finor is signed.

The expansion of the commercial network to all Slovenian regions. The migration of payment transactions for legal persons to banks is finished, and legal persons open transaction accounts for their payments. The migration of the accounts of private individuals - the so-called personal transaction accounts - start. The Bank of Slovenian grants authorisation for insurance intermediation - marketing of insurance policies.

Green houses, 1st half of 1950s

2. STATEMENT OF THE PRESIDENT OF THE MANAGEMENT BOARD

2003 - a successful year for The Bank Koper

The Bank Koper is pleased to announce that 2003 was another successful year. Operating results were within the planned figures, and the activities aimed at continuing development were at the forefront. The pace of convergence with new economic conditions accelerated. Experience and expertise of the Bank's largest shareholder - the financial group SanPaolo IMI - have played a significant role in the process. Its backing was largely reflected on effort to strengthen the Bank's market position and risk monitoring. To have such an internationally active bank by your side is particularly important in the Slovenian economic environment where free trade and fully liberalised financial and capital flows have led to a high level of integration into the global movements.

Global recovery is still not firmly on track

Economic movements in the world in 2003 indicated robustness of the key macroeconomic trends that still do not inspire genuine optimism. As a matter of fact, we were faced with the situation, ever more than in the past, where the achieved results have, as a rule, challenged even moderate forecasts of GDP growth, reducing unemployment and commitment to balanced budget policy mainly in major economies. We can interpret the pronounced lagging behind the expectations also as a result of inability to identify the real causes of the trends that hardly inspire confidence, i.e. say that there is shortage of leverage for the desired control of the economic position and the direction of its development. While having ever more powerful analytical tools and institutional strengthening of centres of power, such lack of steering power may also be rather worrying.
The financial sector, which in today's world bears additional tasks and responsibilities, has been channelling a lot of energy into security and transparency of operations and thus has contained risk. Globalisation of economy is asking for new approaches to this process, and the latter often hardly keep up with negative experience that springs up. The implementation of the guidelines under Basel 2 confirms how comprehensive risk management and control is.

The revival of economic growth by depressed interest rate level as a means of energising the capital market appears to be, under the present circumstances, a task more complex than one may think at first.

Slovenian economy on track

The Slovenian economy has been under the pressure of the economies of scale highly integrated with the international environment, particularly with the EU. Slovenian imports and exports each have been for many years in a row achieving almost 2/3 of gross domestic product. Small wonder that international economic movements have been clearly reflected with a certain time lag also on certain Slovenian macroeconomic aggregates and indicators.

Here it is of particular importance that the indicators of the Slovenian economic growth, particularly GDP growth and international trade in goods in 2003 preserved the positive differences with respect to the European ones. The indicators of economic stability, particularly interest rates and inflation rate have been steadily falling to converge with the EU average figures and this was happening even faster than forecast.

The rate at which the Slovenian GDP was growing remained despite a downward trend in the bracket of 2 percentage points above the EU average. Inflation at 4.6 % was at its record low level. Consequently, the pressure on interest rates was strong.

EU - natural course of events

The invitation to Slovenia to join the EU on 1 May 2003 did not come as a surprise, but still helped to ease the suspense and mitigate the pressure. The full-fledged membership was also seen as a signal that the period of transition is coming to an end, hence the driving power of the fundamental generators of the Slovenian economic growth during transition was also losing momentum. The track record of other countries shows that to keep the pace of economic growth and development, effort should focus on new challenges and provide adequate incentives.

Similar experiences have driven the Slovenian financial sector and banking toward successful convergence with the new requirements. This has been most visible in hefty interest rate cuts, thinner interest margin and shrinking fees and commissions. Alternative services and products attracted attention as new sources of income while the grip on operating costs and risks tightened. Slovenian banks have shown once again their soundness as they have firmly stood by the side of the real sector on the one hand and have been cementing the basis for their own development on the other. By stepping cautiously and building a level paying field for the banks operating in the Slovenian environment, the 2003 results were once again good even though the market conditions were changed.

The Bank Koper keeps abreast of changes

Plenty of time and effort went into convergence with new conditions at The Bank Koper. The fact that the decisions taken have long-term and strategic effects, harmonised actions of the Bank's Supervisory Board and the Management Board in discharging their respective responsibilities is an asset for the future.

The scope of converging practice was broad indeed:

- The Bank was adjusting its operations to the practice in place in SanPaolo IMI Group guided by the palpable benefits of tapping into professional skills and expertise boasted by an internationally active financial institution on the way to full immersion into the European banking area. The Bank gained by strengthening its lending and guarantee potential, boosted its cross-border long-term sources of funding, redesigned its internal procedures to meet market demands more efficiently, and upgraded risk management tools.

- The Bank started to compile data in accordance with the regulations laid down by the Slovenian supervisory and monetary authorities and aimed at accelerating the degree of readiness of the Slovenian banks for the last phase leading to full EU membership that guarantees smooth and problem-free operations in a vast and open financial market. The tasks of paramount importance were engineering additional IT platforms primarily for the purpose of more transparency and security of the banking business.

- The Bank responded to new demands of investors for innovative products that are becoming increasingly popular in Slovenia. The Bank has already been authorised for new products and services. The consolidation and modernisation of the branch network and the expansion of electronic banking.

And last but not the least, the Bank's commitment to continuing improvements in business standards led to promotion IT-based solutions as indispensable tools for vigilance in managing business line concentrations and other risks - operating risk in particular. Fully aware of the ever-present need for up-to-the-minute information technology tools, the Bank continued to invest in the expansion and upgrading of hardware and software in 2003.

Facing new challenges

Engagement in a number of fields was a chore but the staff of Banka Koper took it as a challenge and spared no effort to deliver the best possible results. Extensive training provided was tailored to equip staff with knowledge and skills needed to serve customers to the best of their ability.

The combination of competitive skill of innovation and the competitive edge of local market knowledge enable Banka Koper to continue to prosper and meet the expectations of community. Responsiveness and cooperation of business partners, corporate and institutional customers and individuals were crucial in the process.

At Banka Koper we know that we are running in a marathon and not in a short-distance race. Nevertheless, the prize money makes it worth and we will spare no effort to be a bank rated as a successful institution not only by local but also by international standards.

The Bank's sensitivity to community needs

As for its integration with the community, the Bank followed through also in 2003. We made gifts in kind in support of a wide range of community activities in the area of education, culture and sports. We believe that we have helped to make some dreams come true.

Market position in focus

The Bank's annual accounts for 2003 were audited by the appointed external auditor who issued an unqualified opinion. Total assets grew by 9 % and at year-end stood at 308 billion tolars. On the assets side, the Bank increased corporate loans by 16 % and retail lending by 15 %. Such good performance cemented the core role of lending activities among the Bank's assets and confirms the orientation of the Bank's business policy to boost lending also through the expansion of the branch network.

Credit quality was never compromised by more vigorous lending activity. Conservative approach to provisioning was maintained. The fact that the item carrying specific provisions did not rise as much as credit portfolio in 2003 is to be attributed to a better risk profile in the first place.

On the liabilities side, deposits from cross-border banks surged in 2003. Assisted by SanPaolo IMI, Banka Koper was able to expand its lending potential by arranging cross-border financing in response to customers demand for long-term financing. Nevertheless, domestic deposits placed by customers remain the most important liability in the Bank's balance sheet with 75% of total liabilities.

In 2003, Banka Koper responded to the rising interest of savers for alternative investments such as equity, mutual funds and other instruments that are becoming more attractive as deposit interest rates continue to fall. This trend is here to stay and by extending personal income tax on interest earnings, more people will have their nest eggs in these instruments.

The Bank accelerated the preparations for launching new products on the one hand and implemented tariffs based on charging fees directly to counterparties. As a result the pressure on interest margin eased and non-interest income rose. True as it may be that these are time-tested products widely used in financially developed environment, the reaction of the market was encouraging.

Re-engineering internal processes

A firm grip on operating costs remained for Banka Koper a high-priority tasks in 2003 as an element of competitiveness. Traditional penny pinching would miss the target and in order to improve cost-effectiveness, we must carry on the modernisation of technological processes and invest in information technology. The Bank earmarked substantial funds and engaged top class experts to keep pace with technological developments. So far, this orientation has worked well and there is plenty of potential in the near future.

Profit - shareholders' satisfaction

Gross profit of 6.2 billion tolars is a hefty sum even after paying taxes. Furthermore, a straight-line comparison with profit generated a year earlier as a result of one-off events would not paint a true picture. Nevertheless, 2003 profit confirm that Banka Koper is not only a safe but also a profitable investment.

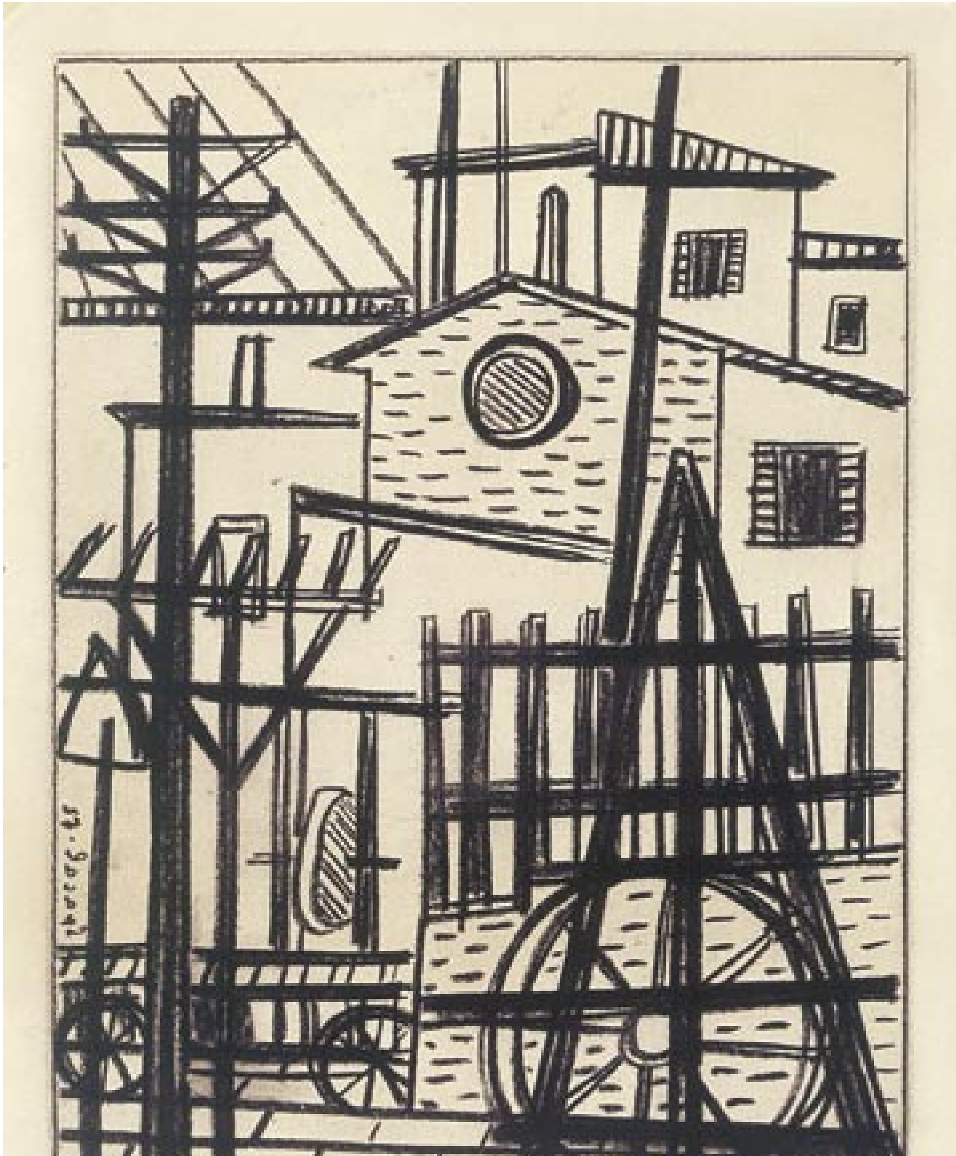
Staying on track

Good operating results posted in 2003 are a springboard for the Bank's business in 2004 - a year of mixed feelings as optimism blends with gloom making economic forecasts volatile. Banka Koper will pursue the policy of strengthening its market position, operating in line with prudential standards, and cost control. These are the key points of the Bank's business policy for 2004 that also hold a high place in its Medium-term Development Plan until 2006. In addition, there is a long list of tasks in relation to the adoption of EU bank legislation and those aimed at exploiting the synergies offered by being a part of the financial group SPIMI.

If Banka Koper is to enjoy sustainable growth, there is a myriad of issues to be addressed and a broad range of activities to be undertaken at all levels. We all have a role in this process and the work done so far coupled with experience gained create a strong foundation on which the Bank's shareholders and business partners can build confidence for 2004.

President

Vojko Čok



Shipyard III., 1952

3. STATEMENT OF THE SUPERVISORY BOARD

In accordance with Article 256, Para 3 of the Companies Act (ZGD), the Management Board of Banka Koper d.d. has drawn up and sent to the members of the Supervisory Board the following documents for approval:

- Audited Annual Report for the Financial Year 2003,
- Audit Report drawn up by the certified auditor PricewaterhouseCoopers, and
- A proposal for the appropriation of profit.

Pursuant to the provisions laid down in Article 274 a of the Companies Act, the Supervisory Board has examined the received documents and hereby presents its findings to the Annual General Meeting of Shareholders of Banka Koper d.d. as follows

R E P O R T

1. The way and scope of verification of the Bank's management during the financial year 2003

In the course of the financial year 2003, the Supervisory Board of Banka Koper d.d. met at six regular sessions and held one session held by correspondence. Papers for the sessions were sent to the members of the Supervisory Board in compliance with the Rules of Procedures for the Activities of the Supervisory Board and functions were discharged in line with the aforementioned act.

Over the past year, the Supervisory Board was mainly engaged in the following areas:
- to monitor and assess on a regular basis the compliance with the Bank's business policy for 2003 and the fulfilment of the goals set out within the policy framework,
- to examine and endorse the Annual Report of the Internal Audit Department for 2003,
- to verify the activities and examine findings of the Internal Audit Department during the current year,
- to examine and endorse the Bank's business policy for the financial year 2004,
- to examine and endorse the plan of internal audit assignments for the year 2004,
- to address other issues in accordance with powers conferred upon it under law and the Articles of Association.

The Supervisory Board consider that it had at its disposal timely and adequate information, reports and information, as well as additional clarifications and explanations when required at sessions it held, so as to be able to monitor throughout the financial year the Bank's operations with due attention, as well as the internal audit function and the running of the Bank.

A more comprehensive report on operations and results achieved in the year 2003 determined on the basis of unaudited financial statements was duly examined by the Supervisory Board at the end of February this year.

The Supervisory Board hereby states that all its members have examined carefully the Annual Report, the Report of the Registered Auditor, Financial Statements, Notes to the Financial Statements, and other notes presented therein. Furthermore, the Supervisory Board consider that the Annual Report of the Management Board gives a true and fair view of the business events and provide comprehensive information as to operations during the past financial year, and thus complements and expands the information already presented to the Supervisory Board in the course of the financial year. The set goals were achieved despite deteriorating conditions in the financial markets. The Bank has safeguarded a high level of operational safety and effectively manages risks it is exposed to in the course of its day-to-day business. Therefore, the Supervisory Board has assessed that the Bank's management was successful during the period under review.

The Supervisory Board has also assessed that the work of the internal audit department was well planned and effective, since it has become an indispensable element for the activities of the Management Board and an aid to the Supervisory Board when forming opinions and making assessments.

2. The position with regard to the Auditor's Report

The Supervisory Board hereby concludes that the external auditor has expressed in the Report the unqualified opinion, i.e. no-objection opinion in relation to the financial statements prepared by Banka Koper d.d., thus giving another proof for the findings of the Supervisory Board. Therefore, the Supervisory Board hereby adopts the following

position:

that the Supervisory Board has no objection to the Report of PricewaterhouseCoopers, Chartered Accountants and Registered Auditors.

3. Endorsement of the Annual Report for the financial year 2003

On the basis of the insight into operations carried out by the Bank in the course of the financial year and after due examination of the audited Annual Report and the unqualified opinion of the external auditor, the Supervisory Board hereby

endorses and adopts

Annual Report of Banka Koper d.d. for the Financial Year 2003.

4. Endorsement of the proposal for profit appropriation

The members of the Supervisory Board have examined the proposals for the appropriation of profit to be finally validated by the Annual General Meeting. By taking into account the Bank's goals for the year 2004 and beyond, the Bank will have to strengthen its capital in order to maintain adequate capital adequacy and sustain its operations. The proposal made by the Management Board as to the profit distribution is oriented towards bracing the Bank's reserves at the expense of dividends and the retained profit to be carried forward. After due examination, the Supervisory Board hereby gives unconditional

a p p r o v a l

To the proposal of the Management Board as to the balance sheet profit appropriation.

Done at Koper, 10 May 2004

Chairman of the Supervisory Board

Giuseppe Cuccurese

»Saltworks«, 1951

SUPERVISORY BOARD

The composition of the Supervisory Board of Banka Koper did not change in 2003. The corporate governance functions are discharged by the representatives of the SanPaolo IMI Group, the majority shareholder and the strategic partner of Banka Koper, and the representatives of Istrabenz, Luka Koper and Intereuropa.

Giuseppe Cuccurese	Chairman SanPaolo IMI S.p.a.
Janko Kosmina	Vice Chairman Istrabenz Koper d.d.
Flavio Gianetti	Member SanPaolo IMI S.p.a.
Paolo Haim	Member SanPaolo IMI S.p.a.
Carlo Moretti	Member SanPaolo IMI S.p.a.
Marjan Babič	Member Luka Koper d.d.
Jožef Kranjc	Member Intereuropa d.d.

MANAGEMENT

In 2003, at the helm of Banka Koper there was the Management Board appointed in 2002 composed of three members:

Vojko Čok	President
Corrado Casalino	Deputy President
Igor Kragelj	Member of the Management Board

ADVISERS TO THE MANAGEMENT BOARD

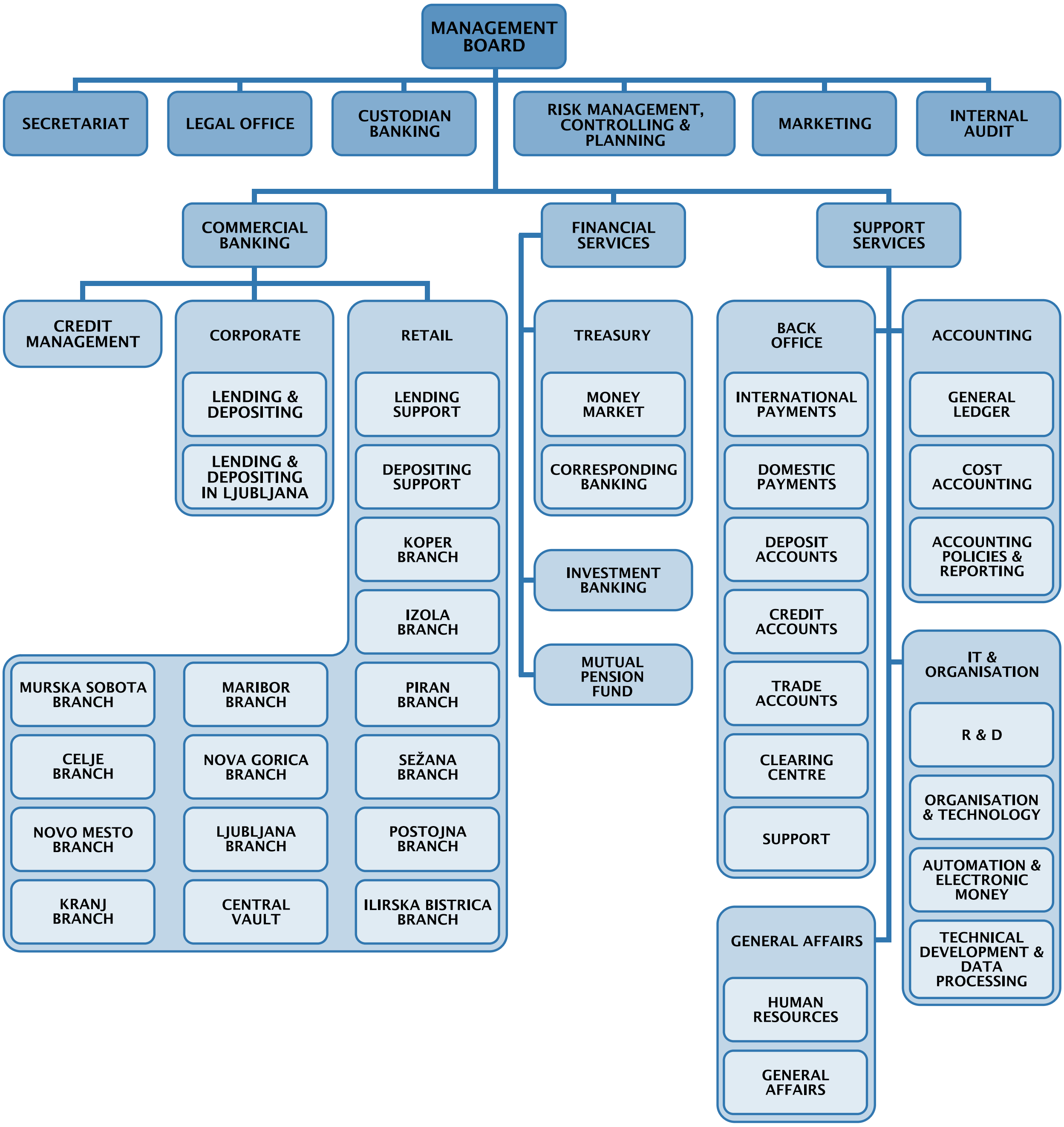
Sava Bergant	Risk management and control
Aleksander Lozej	Corporate law - general affairs
Vilijem Semolič	Compliance function

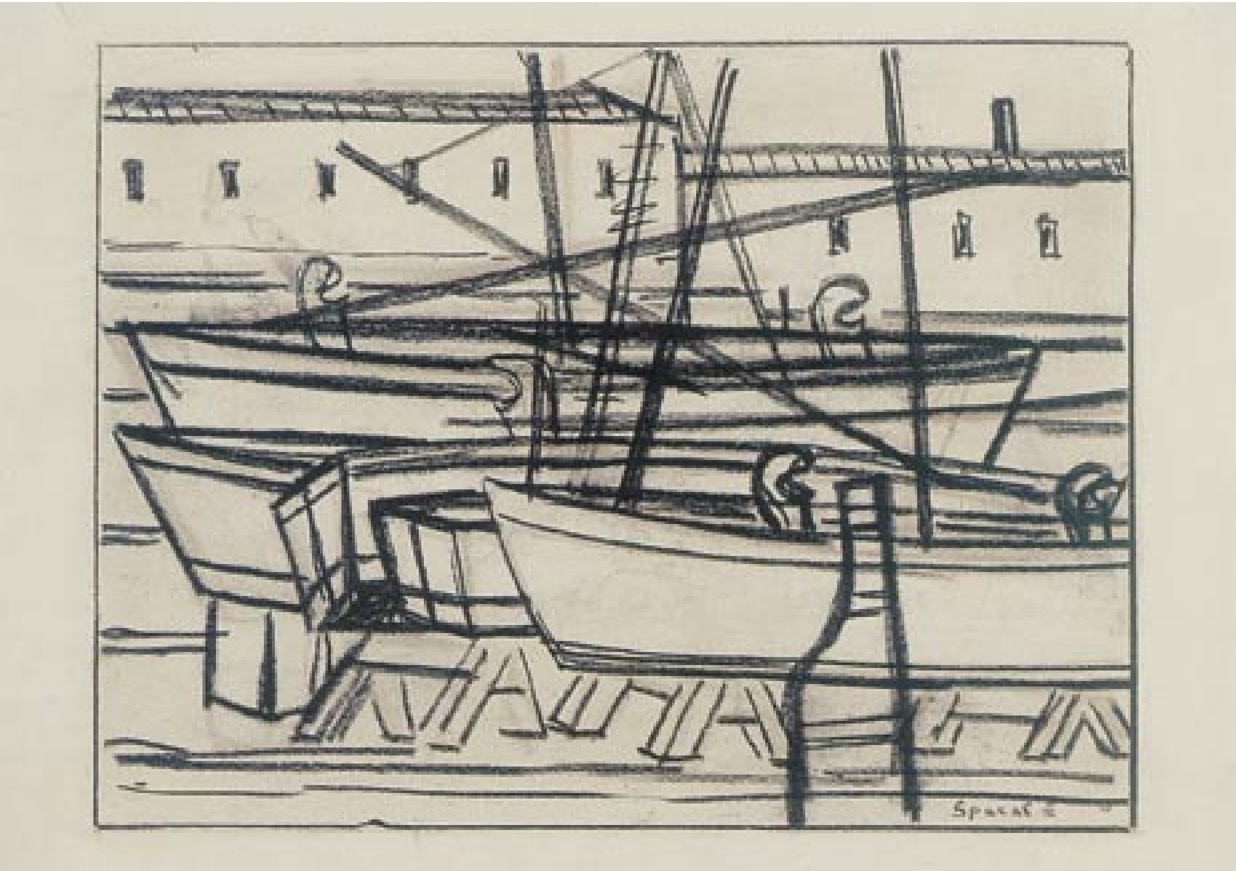
MANAGEMENT - DIRECTORS OF DIVISIONS AND HEADS OF DEPARTMENTS

Boris Bjelica	Back-Office
Tatjana Faust	Treasury
Rado Grdina	Information Technology and Organisation
Dario Radešič	Commercial Network
Vid Štemberger	General Affairs
Ida Tomišič	Corporate Banking
Mariza Virágh	Accounting
Igor Bahčič	Investment Banking
Bojan Knez	Open-ended Mutual Pension Fund
Aleksander Milostnik	Internal Audit
Franc Ohnjec	Marketing
Branko Rojc	Custody function
Maja Soban	Legal Affairs
Luciano Vierin	Credit management

Shipyard in Izola, 1952

4. ORGANISATIONAL CHART





Shipyard, 1st half of 1950s

5. BRANCH NETWORK OF BANKA KOPER

Banka Koper d.d.
Pristaniška ulica 14, 6502 Koper
tel.: +386 665 11 00; fax: +386 639 78 42
S.W.I.F.T.: bakosi 2x
Internet: http://www.banka-koper.si

Branch Office Koper
Pristaniška ulica 14, 6000 Koper
Agencies: Markovec, Olmo, Galeb, Ankaran, Olmo II

Branch Office Izola
Drevored 1. maja 5, 6310 Izola

Branch Office Piran
Obala 114, 6320 Lucija
Agencies: Piran, Portorož

Branch Office Sežana
Partizanska 50, 6210 Sežana
Agencies: Komen, Kozina, Divača

Branch Office Postojna
Tržaška 2, 6230 Postojna

Branch Office Ilirska Bistrica
Bazoviška 18, 6250 Ilirska Bistrica
Agencies: Trnovo, Podgrad

Branch Office Maribor
Vita Kraigherja 5, 2000 Maribor
Agencies: Ptuj, Lenart, Ormož

Branch Office Nova Gorica
Bevkov trg 2, 5000 Nova Gorica
Agencies: Idrija, Tolmin, Ajdovščina

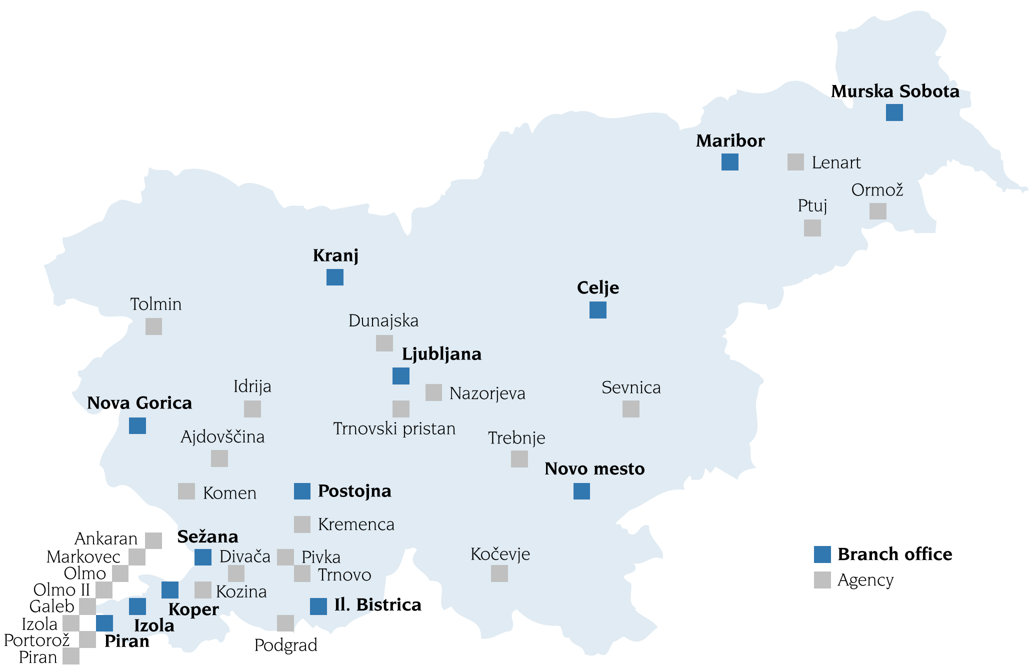
Branch Office Ljubljana
Cigaletova 4, 1000 Ljubljana
Agencies: Dunajska, Nazorjeva, Trnovski pristan, Kočevje

Branch Office Murska Sobota
Slovenska ulica 27, 9000 Murska Sobota

Branch Office Celje
Stanetova 31, 3000 Celje

Branch Office Novo mesto
Novi trg 5, 8000 Novo mesto
Agencies: Sevnica, Trebnje

Branch Office Kranj
Likozarjeva ulica 1, 4000 Kranj



Shipyard, 1st half of 1950s

6. GENERAL ECONOMIC AND BANKING ENVIRONMENT

Slovenia's economy and its banking and financial environment are largely affected by the global and mainly European macroeconomic movements. An export-oriented economy, such as in the case of Slovenia, is highly vulnerable to worldwide trends of demand and supply, and movements in exchange rates. The exchange rate for the euro and the US dollar are of particular importance. An overview of the general characteristics of the international and the Slovenian economy during 2003 is given below.

In 2003, the international economy enjoyed a modest revival. Preliminary estimates of economic growth set the figure at 3.0 per cent in the year 2002 were raised in 2003 to 3.2 per cent. Slightly weaker economic performance indicators were posted by the European Union (EU 15) when in 2003 economic growth notched a mere 0.7 per cent as opposed to 3.1 per cent growth managed by the future member states of the European Union. Inflation in the EU notched 2.1 per cent for 2003 and once more exceeded the upper limit of 2 per cent set for inflation being under the surveillance of the European Central Bank (ECB). Another reason was in ever-stronger euro against the dollar. The curreny rate euro/USD rose from 1.05 at the end of 2002 to 1.25 at the end of 2003. In other words, the euro appreciated by over 15 percent against the US dollar during the course of the year.

The principal characteristics of the Slovenian economy in the year 2003 can be summarised in the following key figures: GDP growth lost momentum, external trade deficit continued to rise, the two sides of the balance of payments remained matched, the grip on inflation strengthened, and key interest rates in cross-border markets and at home continue to slide downward.

Slovenia is channelling activities toward convergence with the Member States of the European Union, although in terms of economic growth rate it actually did worse than during the previous years. According to the latest estimates, GDP growth for 2003 in real terms stood at 2.3 per cent - considerably below GDP growth posted consistently during the second half of the 1990s and onward. Exports followed suit by posting the results (measured in the euro) that from 5.4 per cent in the year 2002 dropped to 2.9 per cent a year later. The opposite trend was enjoyed by imports growing from 3.3 per cent to 5.7 per cent in 2002 and 2003, respectively. Consequently, in 2003 the figures showing how much were imports covered by exports was 92.2 per cent, as opposed to a year earlier when this figure stood at 94.7 per cent.

Optimism is justified when it comes to the inflation growth rate, although there is no room for complacency given the EU inflation criteria. Inflation was curbed in 2003 to 4.6 per cent - down by 2.6 percentage points in comparison to 2003 and beating even the bold forecast. The exchange rate for the euro in 2003 increased by 2.8 per cent, the exchange rate for the US dollar declined as it did a year earlier. During the year under review, this drop was 14.3 per cent.

Boats and houses, 1st half of 1950s

7. AN OVERVIEW OF THE BANK'S OPERATIONS IN THE YEAR 2003

Lending operations

Lending activity in the year 2003 was characterised by:

- favourable and at times even excess tolar liquidity,
- extensive supply of foreign currency in the market, and
- the pressure to reduce interest rates.

An important role in selecting the currency in which a loan is to be denominated was also played by the different rise of the euro and domestic inflation and strengthening of the euro against the US dollar. The trends witnessed a year earlier continued as customers were interested in taking loans denominated in foreign currency. As a result, these loans soared by 45 per cent in 2003. The Bank responded to a higher demand for assets denominated in foreign currency by arranging a cross-border syndicated loan in the amount of 30 million euros, long-term borrowing in the domestic market (10 million euros) and by arranging a cross-border credit line. On 30 October 2003, a global loan facility was arranged between the European Investment Bank (EIB) of the one side, and SanPaolo IMI Group and SanPaolo Internazionale of the other side. Banka Koper will pass on 50 million euros to entrepreneurs, as well as public and private promoters, in support of projects in the most important indutries.

Lending in tolars increased by 9 per cent during the year under review. Customers' interest in long-term financing was particularly strong and this type of lending soared by 15 per cent in 2003, overtaking short-term loans denominated in the domestic currency that rose by 6 per cent. As liquidity in tolars was quite high and the trend of cutting interest rates continued, customers who needed financing up to one year would opt for loans granted for shorter periods of time and would extend the facility if needed.

Lending to household in 2003 soared by 15 per cent. Individuals were mostly interested in long-term loans, particularly for housing loans. During the year under review, this item increased by 19 per cent. This impetus to demand for housing loans was partly fuelled by the Bank's offer to arrange financing on the basis of the savings accumulated under the National Housing Savings Scheme.

As pencilled in its business policy, the Bank continued to pay particular attention to safety of its placements also in 2003. It fine-tuned its customer credit scoring practice and strictly observed regulatory requirements referring to provisions.

Accepting deposits

The trend of falling interest rates spurred the lending activity and boosted the volume of loans and advances. However, its effect on gathering deposit funds was counterproductive. The deposits placed by the non-banking sector increased by 12,195 million tolars year-on-year. The fact that deposit growth lost momentum may be attributed to the impact of the continuing interest rates fall and the fact that customers started to change their savings habits. The attractiveness of more lucrative forms of savings (e.g. mutual funds, investments in shares and other securities) was edging up despite a higher degree of inherent risk.

During the first half of 2003, the Bank completed successfully the migration of current accounts to the new transaction accounts. As envisaged under the payment systems reform, giro accounts opened with the former Agency for Payments (APP) used for effecting legal persons' payments and domestic payment transactions migrated to the commercial banks.

In the second half of 2003, the customers who joined the National Housing Savings Scheme from its kick-start entered the last year of saving money for their homes. For the banks included in the scheme it was the reminder that in the second half of 2004 as much as 5.5 billion tolars piled up under long-term deposits will be released. The Bank launched in 2003 a series of activities in effort to mitigate the expected drain on liquidity.

Inter - banking operations

The Bank slightly decreased the scope of placements with the banking sector in 2003. Consequently, this item was by 4,975 million tolars lower in comparison with a year earlier and amounted to 22,259 million tolars. The decline was in line with the Bank's policy to raise earnings on its assets. Most placements in other banks were made in accordance with the requirements prescribed by the Bank of Slovenia with regard to the maintenance of the minimum liquidity.

On the other hand, the rise in assets available for funding of lending operations during the period under review was achieved mainly by increasing the volume of the Bank's borrowing in foreign currency. The item "due to banks" swelled over a year's time by 42 per cent. As a result, the item "due to banks" banks at the end of 2003 totalled 47,890 million tolars, of which loans granted and /or organised by SanPaolo IMI accounted for 25 per cent of total borrowing.

Securities trading

The revived interest in securities portfolio investments refers to subscribing bills issued by the Bank of Slovenia denominated in foreign currency as a consequence of regulatory requirement to comply with the regulation passed by the Bank of Slovenia on the banks' obligation to maintain the appropriate volume of liquid assets denominated in foreign currency. As a consequence of excess liquid assets denominated in tolars on the money market, the Bank decided to step up efforts to subscribe bills issued by the Bank of Slovenia denominated in tolars, as well as other potentially lucrative long-term bonds issued by the government and other institutions.

As regards trading in securities, the Bank increased by as much as 9 per cent its investments in debt securities not held for trading purposes, while investments in trading securities dropped down by 6 per cent. As at 31 December 2003, the Bank carried 107,425 million tolars in investments in securities. A breakdown of this item reveals that debt securities not held for trading purposes amounted to 95,490 million tolars and accounted for 89 per cent of the securities portfolio. The increase in the short-term securities refers to foreign-exchange bills (up by 3,601 million tolars) being a tool for the Bank to maintain the regulatory threshold for foreign-exchange liquidity. The rise in long-term securities can be attributed to investments in long-term bonds issued by the Republic of Slovenia (2,791 million tolars) and by commercial banks and financial institutions (610 million tolars).

Investments in securities held for trading purposes topped 8,173 million tolars at the end of the year posting a drop during 2003 of 481 million tolars. The Bank's portfolio of trading securities includes bonds issued by the Republic of Slovenia, bonds issued by other banks; bonds issued by certain funds, and discounted bills of exchange.

Equity investments

The Bank obtained the larger portion of investments in equity capital during the past years as a result of the restructuring of bad debt particularly when repackaging loans of some major borrowers by using debt-for-equity swap. Consequently, equity holdings and the Bank's portfolio obtained through debt-for-equity swap accounted for 83 per cent of its equity portfolio. As set out in the Bank's business policy, the activities with the aimed at disposing of equity holdings that the Bank had acquired in the course the restructuring bad loans (debt-for-equity swap) continued throughout 2003.

Payment card business

Banka Koper has been in the card business in Slovenia since 1992 when it launched the first Slovenian payment card - Activa. Domestic brand Activa was eventually joined by all international credit and debit cards - MasterCard and Visa International. The development of Activa attracted a number of other banks to join the Activa family. At present, with seven participating banks, Activa is one of the strongest card systems in Slovenia. In addition to Banka Koper, the Activa system includes: Banka Celje, Gorenjska banka, Raiffeisen Krekova banka, Nova KBM, Poštna banka Slovenije, and Slovenska zadružna kmetijska banka.

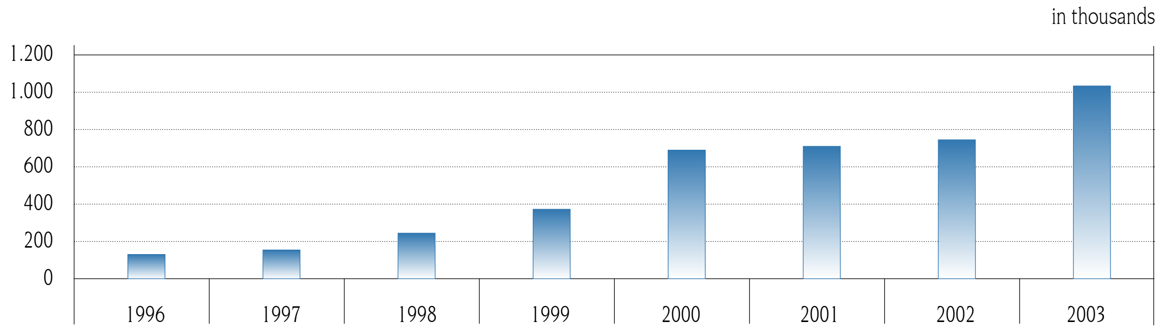
During the eleven years of being in the market, the Activa system has built a wide-spread network of POS-terminals and points of sale that accept Activa, Eurocard/MasterCard, Visa, Maestro and Visa-Electron cards.

As regards the structure of cards, the lion's share (82 per cent) is held by the debit card Activa-Maestro accepted at a wide range of points of sale and POS terminals both in the country and in the international environment. The card is also accepted throughout the network run by the Post Office of Slovenia, at all toll stations operated by the company DARS across Slovenia, parking systems, ATMs, as well as in banks, for electronic banking and also for payments made to administrative units of the Republic of Slovenia.

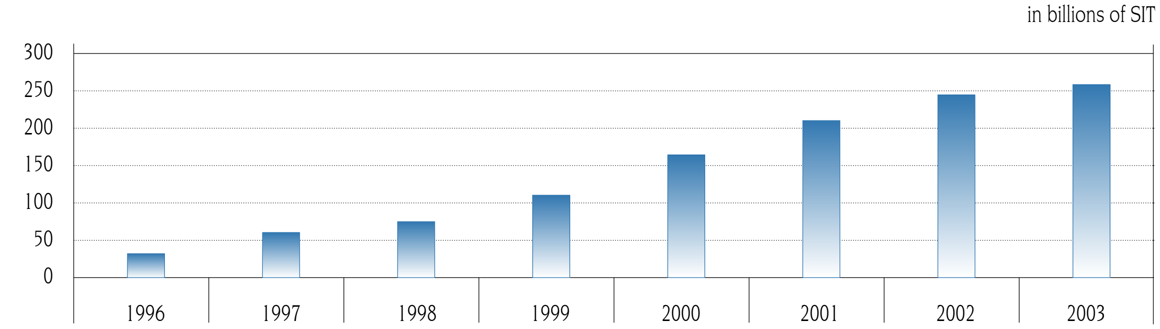
The Activa system has been quick to respond to new market demands for more flexible and user-friendly services, while on the other hand upgrading security features of card operations. Banka Koper is responsible for delivering state-of-the-art solutions tailored for the Activa system. It oversees the entire system, identifies in a timely manner and prevents card abuse in Slovenia and abroad. To facilitate this task, the Bank started with the installation of PIN-pads across the POS-terminal network in 2003. The ongoing project designed to boost the Activa system is the smart card with chip technology. Currently, Activa-Maestro card with the magnetic strip are being phased out and smart cards are taking their place. The next step is the project to introduce Visa International smart cards with several functions and several applications on a single card. The Bank is confident that the day when these smart cards will flood the market is coming soon - as early as in 2005.

Activa family growing bigger

Number of cards issued



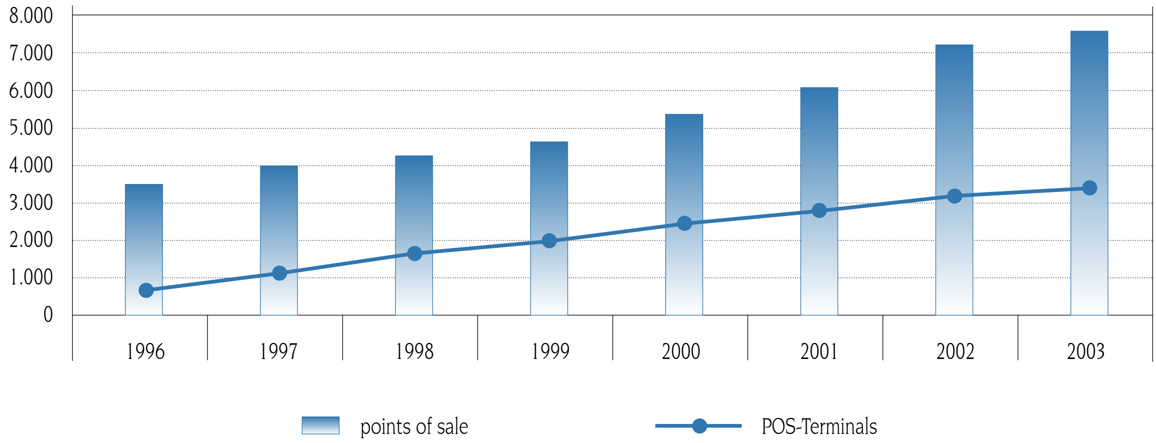
Turnover



How Activa grew in Banka Koper

By the end of 2003, the number of cards issued by Banka Koper rose to 220,173 - a rise of 39 per cent in comparison with the end of 2002. During the same period the number of POS-terminals increased by 10 per cent and at the end of 2003 stood at 3,414 terminals. Almost 11 million transactions were made in 2003 at 7,568 points of sale using POS-terminals - a rise of 11 per cent year-on-year.

Points of sale and POS-terminals



Domestic payment transactions

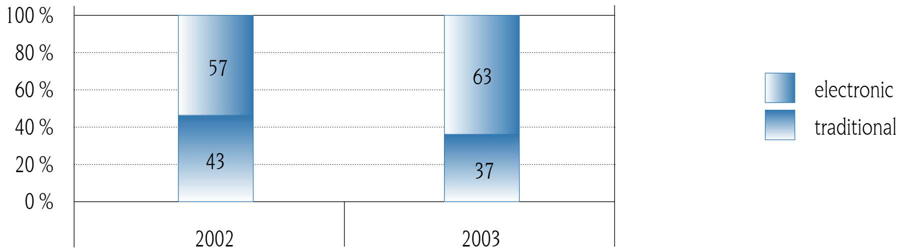
The main feature of Slovenia's payment system in the year 2003 was the process of transforming accounts for making inward and outward payments of private individuals to the so-called personal transaction accounts. By re-engineering business processes productivity has increased, the quality of the service has improved, the volume of operations has risen, while transaction costs have decreased and the time required to clear a payment has shortened. By putting in place an efficient internal organisation structure and by deploying appropriate information technology support, Banka Koper was able to finish the account migration project on time and without a glitch. By the deadline fixed by the regulator (30 June 2003), the Bank opened most personal accounts - 126,614. The number of personal accounts increased to 132,206 at the end of 2003.

The Bank is serving 9,934 customers who make their payments through Banka Koper - legal persons who have opened a tolar transaction account and 1,204 legal persons who have a transaction account in foreign currency.

Payment transactions denominated in tolars conducted through the RTGS system - real time gross-settlement system and the Giro Clearing - the system for small value payments - handled 4.7 million transactions during the year under review. This means a 7 per cent increase in comparison with a year earlier.

The total volume of payment operations made in tolars in the year 2003 amounted to 2,925 billion tolars. This figure is slightly below the result posted in 2002, when the volume of payment transactions in tolars was beefed up by cash flows generated by take-overs. The take-over of Banka Koper was one of them.

Structure od payment channel



Legal persons use electronic channels for 92 per cent of all payment operations in terms of value and 73 per cent of total transactions.

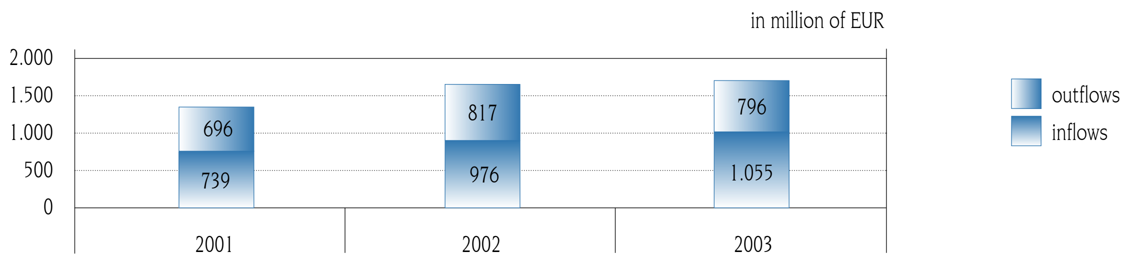
Households use i-Net Banka to make 40 per cent of total payments, and these transactions account for 43 per cent of total payments in terms of value.

International payment transactions

International payment transactions amounted to 1,851 million euros in the year 2003. This figure is by 3 per cent higher 9 in comparison with 2002. Banka Koper acts mostly as a bank for outward payments.

Money transmitted abroad accounted for 57 per cent, and inward payments accounted for 43 per cent of aggregate cross-border transactions.

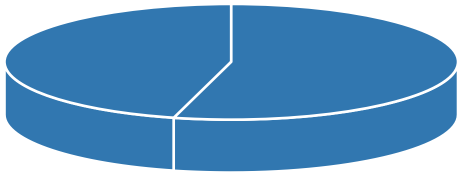
International payment transactions



The physical volume of payments measured by the number of payment transactions rose to 124,727 transactions in 2003. This figure was up by 7 per cent in comparison with a year earlier.

Cross-border payment transactions are performed through a network of 26 correspondent banks. Nearly 60 per cent of foreign exchange payment transactions are made with banks from the European Union with Italy, Germany and Austria at the top of the list. The Bank performs as much as 71 per cent of foreign exchange payment operations denominated in the euro, 27 per cent in the US dollar, and merely 2 per cent in other currencies.

International payment transactions by geografic area



Open-Ended Mutual Pension Fund of Banka Koper (OVPS)

As at 31 December 2003, the Open-Ended Mutual pension Fund (OVPS) carried total assets in the aggregate value of 1,146 million tolars, or total assets being by 140 per cent higher in comparison with 2002. The OVPS has 3,872 members, of which 3,649 persons are members of the collective pension insurance, and 223 are individuals who have joined the fund. The pension scheme includes 52 enterprises.

During the year under review, the OVPS posted a 14 per cent net annual return - the highest return among all operators of supplementary pension insurance schemes in Slovenia.

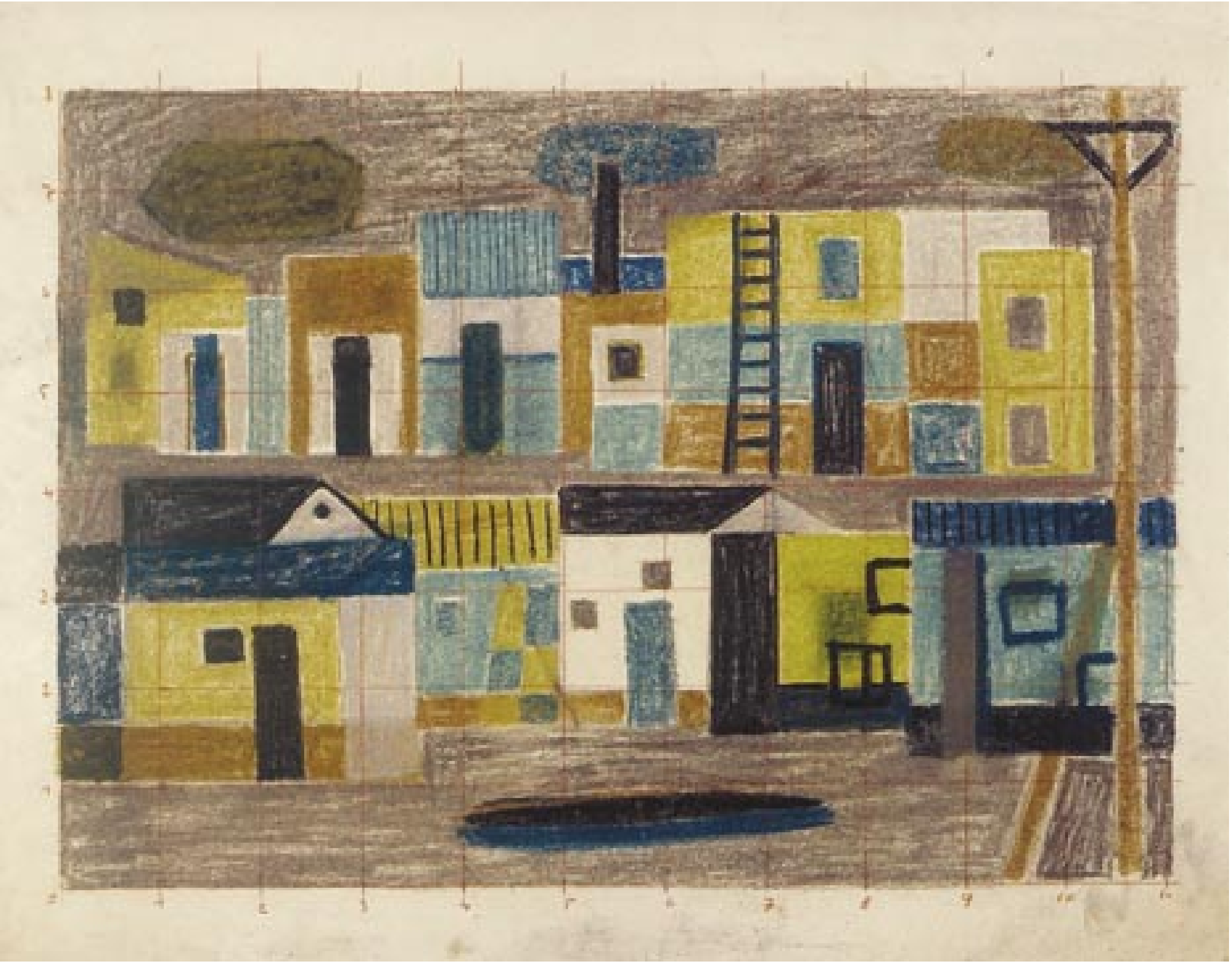
Insurance intermediation and marketing of mutual funds

At the end of 2002, Banka Koper was authorised by the Bank of Slovenia to act as intermediary selling insurance policies, and in 2003 it started selling insurance services provided by Adriatic insurance company across the Bank's branch network. In co-operation with the insurance company Adriatic, the Bank has been preparing for the marketing of bancassurance - a combination of banking and insurance services.

Furthermore, the Bank expanded the roster of its products and services in 2003 by marketing mutual funds. In addition to the funds managed by the management company Primorski skladi (Pika and Živa), Banka Koper started with the marketing of the funds Galileo, Rastko and KD Bond managed by KD Investments.

Taking up custody services

Having obtained the consent granted by the Bank of Slovenia and in line with the provisions under the Investment Funds and Management Companies Act (ZISDU-1), Banka Koper expanded in 2003 its offer of products and services by adding custody and administration of securities portfolios to the list of its services. In 2003, the Bank was negotiating with several management companies the possibility to provide custody services for their mutual funds.



Seafront, 1st half of 1950s

8. SHAREHOLDERS' EQUITY

At the end of 2003, the Bank posted shareholders' equity in the amount of 35,980 million tolars composed of the following elements:

- share capital in the amount of 5,942 million tolars less own (treasury) shares in the amount of 158 million tolars,
- reserves in the amount of 23,914 million tolars,
- reserves for general banking risk in the amount of 1,350 million tolars,
- net profit brought forward (retained profit) in the amount of 4,931 million tolars.

Pursuant to the provisions laid down in the first paragraph of Article 228 of the amended Companies Act (ZGD-F), profit after tax posted for 2003 shall be allocated to legal reserves at the rate of 5 per cent. Furthermore, in accordance with the Articles of Association, the Bank established statutory reserves from profit at the rate of 40 per cent of the residual net profit for the financial year left after making the appropriation for legal reserves.

As at 31 December 2003, the Bank posted profit available for distribution in the amount of 2,394 million tolars.

The Bank's subscribed paid-up capital is composed of 531,359 ordinary shares having the nominal value of 10,000 tolars per share, including 13,033 shares of the Bank's treasury shares carried at the end of 2003. The registered shares have been issued as non-materialised shares and they were listed on the Ljubljana Stock Exchange (LjSE) from 14 March 2000 until July 2003. In mid-2003, the Bank withdrew its shares from the stock exchange as the concentration of ownership was too high for any substantial trading.

The ownership structure of the subscribed paid-in capital of Banka Koper changed significantly in 2002 after it was acquired by the Turin-based SanPaolo IMI:

The ownership structure

	Ownership (in %)	
Principal shareholders of Banka Koper	**31 December 2003**	**31 December 2002**
1. Sanpaolo IMI s.p.a.	62.60	62.10
2. Istrabenz d.d.	10.00	15.00
3. Intereuropa d.d.	10.00	10.00
4. Luka Koper d.d.	10.00	5.00
Principal shareholders - total	92.60	92.10
5. Small shareholders	4.95	5.63
6. Treasury shares	2.45	2.27

»Marina«, 1947

9. ORGANIC GROWTH

Human resources

Management of human capital is becoming and today's organisations a key factor for achieving efficiency and consequently building competitive business. As with most businesses, quality and commitment of people make the difference and give the cutting edge to companies. As banking is a business based on relationship and trust, for on for competitiveness has not blurred the main features of the Bank's general policy on employees. The Bank subscribes to the policy of attracting, retaining and motivating the best people. Remuneration is an important element of the policy and the funds are dedicated to the development of human capital, predominately in the area of banking, marketing, informatics, finance and managerial skill have been steadily rising. People who want to make a long-term career with the Bank are also attracted to an environment with good values, the potential for success, and the scope to develop an interesting career.

At the end of 2003, Banka Koper had a 777-strong staff or 10 employees less than a year earlier. The average age of Banka Koper staff is 40 years. The total average service period is 17.5 years, of which 11.4 years with the Bank.

The composition of the Bank's staff classified by level of education from 2000 until 2003

	31 Dec.2003	31 Dec. 2002	31 Dec. 2001	31 Dec. 2000
University degree and higher	194	162	148	145
High school/college	115	128	107	101
Secondary school	453	481	490	483
Vocational training	15	16	16	15
Total	777	787	761	744

The educational structure of the employees in Banka Koper has been steadily improving over the years. It does not come as a surprise, since the Bank has been sponsoring its employees to study for academic degrees. The Banka has signed a contract for education with 43 employees who are studying as part-time students.

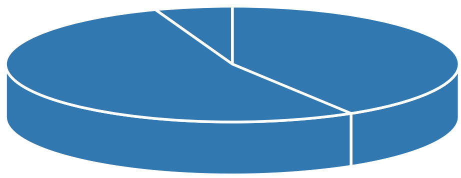
The Bank has been brushing up on professional knowledge and skills of its employees through in-house education and training. It a time-tested method and the most effective way to equip staff with job-specific knowledge and skills through tailored seminars and courses, and theme workshops.

Boats and fishing nets, 1953

10. INVESTMENTS IN FIXED ASSETS

In line with its long-term development programme and its endorsed business strategy, the Bank continued to invest in computer hardware and software also in 2003, along with investments in premises and other equipment. The aggregate amount of investments was 1,773 million tolars.

Investments in 2003



Banka Koper allocated 954 million tolars from its budget for 2003 to information technology for banking operations, i.e. 54 per cent of aggregate investments in fixed assets. The migration to transaction accounts, ever-increasing security requirements in relation to card operations, and the activities associated with the transition to chip technology, call upon the Bank to continuously invest in card-related products and services. To facilitate card-related transactions, the Bank has been investing heavily in the purchase of POS terminals and ancillary equipment to put the system in place and provide card-processing services for Delta banka from Serbia and Montenegro.

Investments in computer hardware and software, the development of the Teller's Window and investments in ATMs and Information Kiosks were mostly driven by IT development calling for gradual replacement of equipment to keep abreast of the information system upgrades.

During the period under review, the Bank developed and implemented a new IT platform for credit operations for retail customers as a part of the IT support designed to facilitate transactions at The Teller's Window. By introducing the new IT application in mid-2003, the Bank became independent from information technology services of NLB.

A large portion of investments - 712 million tolars or 40 per cent of total investments, the Bank channelled in the expansion of the commercial network and renovation of premises with focus on delivering a modern banking service. In 2003, the Bank opened a branch in Kranj. In addition to new branches, the Bank acquired new office space in Idrija. Toward the end of 2003, the Bank started with the refurbishment of Koper Branch located in its headquarters at 14 Pristaniška Street. The face-lift scheduled for completion in early spring 2004 was completed on time. In 2003, the premises at Ormož were refurbished, the space for receiving customers in Ljubljana Branch was enlarged, and the premises of the branch in Izola were renovated.

Under the item other equipment, Banka Koper set aside 107 million tolars, i.e. 6 per cent of total investments in 2003. On the list there were mainly modernisation and upgrading of security devices, modernisation of the Bank's car fleet, new office furniture, as well as office machines and equipment.

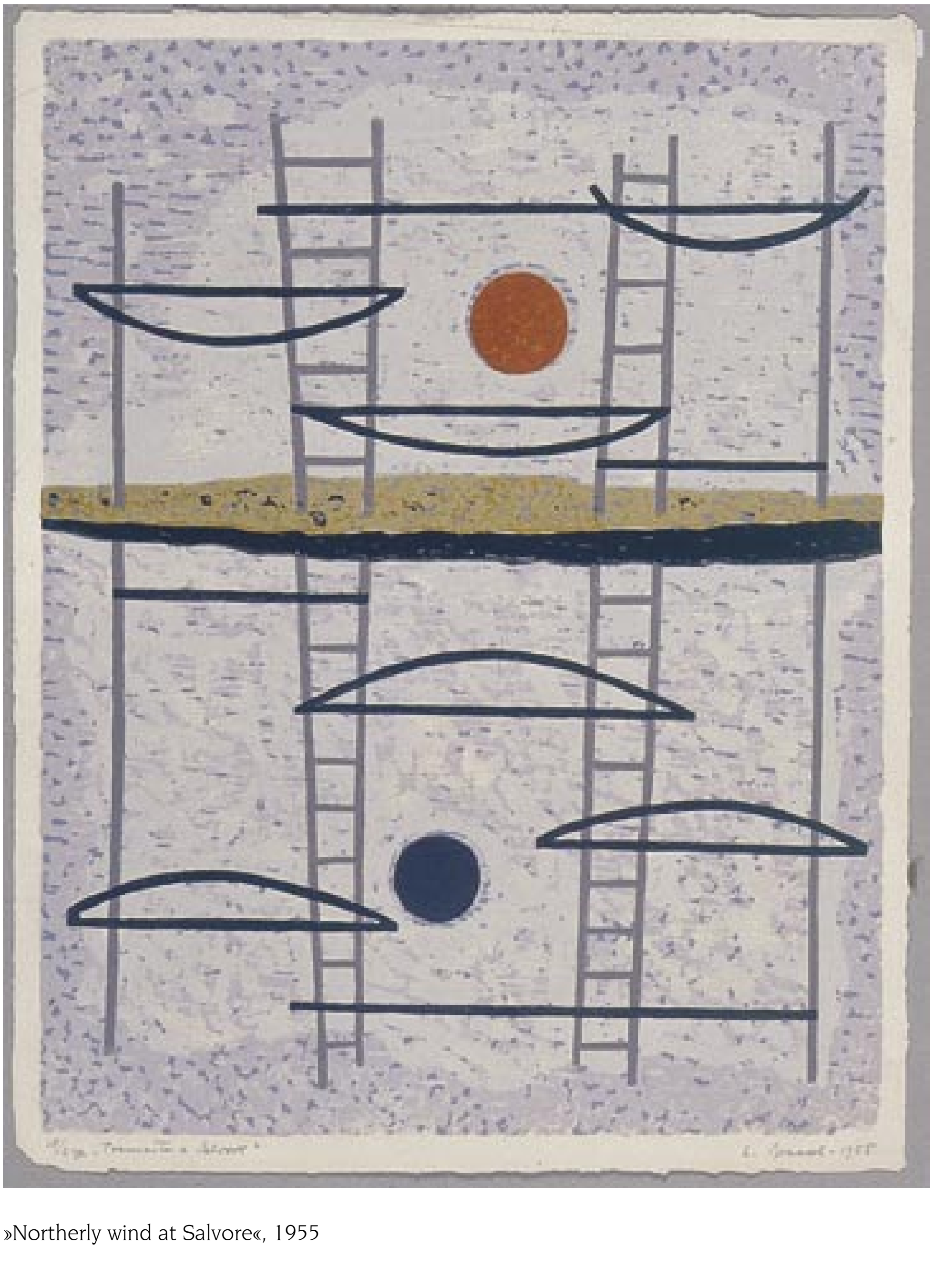
Boats at Savudrija, 1954

11. COMMUNITY INVOLVEMENT AND DONATIONS

During the year, Banka Koper made charitable donations of 120 million tolars and made gifts in kind in support of a wide range of community activities. It continued to build its presence through support to the communities in which it operates by focusing on sports and cultural events. Commitment to its social and community role led the Bank to allocate a part of funds for business gifts traditionally given to customers and other business partners at the end of the year to support education. In 2003, the donation went to thirteen Slovenian libraries.

Among donations relating education in 2003, financial and expert help provided to the project for the establishment of the University of the Primorska Region was undoubtedly the most important event.

Among the initiatives ther Bank endorsed in 2003 was funding for events designed to promote entrepreneurship. Banka Koper was the main sponsor of two major events - Primorski forum (Forum of the Primorska Region) and the awarding the fastest-growing company of the region in collaboration with Gospodarski vestnik (Economic News).



»Northerly wind at Salvore«, 1955

12. POSITIONING BUSINESS FOR GROWTH IN 2004

The main feature of Banka Koper is its traditionally high degree of integration with the costal and Karst region, adequate yield on invested capital and the sprawling branch network across the territory of Slovenia. On the other hand, remaining on the cutting edge is a task forth with difficulties, and at Banka Koper there is widespread awareness that there is no room for complacency. In response to increasing competition, Banka Koper is quick in re-engineering its operations, wrapping up new products and pushing the limits of the IT tools on the one hand and paying attention to education and training of staff on the other in effort to develop its intellectual capital.

When making a blueprint of its goals, the Bank took into account the following elements:

- further downward pressure on interest margin;
- modest contribution to be generated by the new products to the Bank's profit during the initial phase;
- modest synergies in the implementation of new information technology support due to differences between local and cross-border environment (at least until the adoption of the euro).

The business plan for 2004 has been drawn up along the lines that should be delivering the benchmarked return over a long term, converging the banking operations with the standards of the European Union, and complying with the new stricter security standards for banking operations. Furthermore, there is commitment to raise the level of technological and human resources for marketing new products, which are expected to account for a heftier share in income to be earned in the future.

For 2004, the Bank is planning the following:

- to strengthen its market share

Determined to spread its operations to other regions in Slovenia, the Bank has been steadily building its presence beyond its "home turf" over the past few years. The first serious commercial effects of this policy are expected in 2004. By bringing its products and services at customers' doorstep all over Slovenia, the Bank has pencilled in strengthening its market position, which as at 31 December 2003 stood at 6.1 per cent (in terms of total assets). The Bank's commitment to increase its total assets by 12 per cent in 2004 is a step in the right direction.

- expansion of the roster of products and services by adding the following products and services:

- custody services,
- leasing and factoring,
- cash management,
- more derivative financial instruments for corporate customers,
- marketing mutual funds and insurance products.

- modernisation of customer relations management

The Bank will start in 2004 with the implementation of an overhauled system for handling customers' business. Customer Relationship Management (CRM) will be built upon adequate organisational and information technology support.

- increasing the volume of services related to card processing

The Bank is planning in 2004 a kick-start of processing, i.e. wrapping up an offer for appropriate information technology platform for debit and credit cards also for certain banks that operate within the framework of the SanPaolo IMI Group.

- active management of credit and other risks

In the year 2004, the Bank intends to upgrade the process for managing credit risk associated with the entire portfolio in accordance with the capital requirements envisaged in the New Capital Accord - Basel II.

- further development of IT platform

Modernisation is in the pipeline, i.e. preparation of applications designed to give a boost to quality and responsiveness of the Bank's operations (CRM, Treasury, international payment transactions, and other).

In the year 2004, the Bank is also planning to set up a data warehouse for databases compiled using different analytical applications being indispensable for putting in place controlling by customers and by products, as well as for putting in place models for risk management and for reporting requirements.

- disposal of equity holdings

The Bank estimates that in the year 2004 the climate for disposing of equity holdings acquired through debt-for-equity swaps will be favourable.

- intellectual capital development

Venturing into new lines of business, the scope and variety of products, application of new technologies, as well as the tools and methods for management and control of risks associated with banking operations that are becoming ever more sophisticated, call for permanent education and on-the-job training. To rise to the challenge, the Bank has drawn up a programme for 2004 by groups of employees that takes into account the role of the exchange of knowledge within the Bank, as well as education and training provided by leading institutions in Slovenia and abroad.

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The management are responsible for preparing financial statements for each financial year that present fairly the state of affairs of the Bank and its subsidiaries as at the end of the financial year and of the profit or loss for that period.

The management confirms that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 2003. The management also confirms that applicable International Accounting standards have been followed and that the financial statements have been prepared on going concern basis.

The management is responsible for keeping proper accounting records for taking reasonable steps to safeguard the assets of the Bank and its subsidiaries and to prevent and detect fraud and other irregularities.

Management Board:

Igor KRAGELJ	Corrado CASALINO	Vojko ČOK
Member	Deputy President	President

31 March 2003

Income statement

(all amounts expressed in thousands of SIT)

	Notes	Year ended 31 December 2003	2002
Interest and discount income	2	19,065,324	20,679,489
Interest expense	2	10,035,194	11,695,496
Net interest income		**9,030,130**	**8,983,993**
Fee and commission income	3	6,269,606	5,653,695
Fee and commission expense	3	674,520	630,916
Net fee and commission income		**5,595,086**	**5,022,779**
Dividend income	4	171,821	117,824
Net trading income	5	1,440,791	903,323
Gains less losses from investment securities	6	20,021	48,217
Other operating income	7	1,314,308	845,317
Operating income		**17,572,157**	**15,921,453**
Operating expenses	8	(10,484,913)	(9,112,172)
Impairment losses on loans and advances	10	(902,116)	(1,665,257)
Profit from operations before tax		**6,185,128**	**5,144,024**
Gains from disposal of subsidiary		-	1,457,323
Profit before tax		6,185,128	6,601,347
Income tax expense	11	(1,565,543)	(1,688,528)
Net profit for the period		**4,619,585**	**4,912,819**
Earnings per share (expressed in SIT per share)			
- basic and diluted	12	8,903	9,453

The following notes on pages 54 to 95 form an integral part of these consolidated financial statements.

Balance sheet

(all amounts expressed in thousands of SIT)

	Notes	As at 31 December 2003	2002
ASSETS			
Cash and balances with central bank	13	7,218,060	6,004,696
Treasury bills and other eligible bills	14	23,687,460	22,670,336
Due from other banks	15	22,259,452	27,234,105
Trading securities	16	8,173,450	8,654,313
Derivative financial instruments	17	128,413	75,225
Loans and advances to customers	18	159,746,682	137,547,626
Investment securities	19	75,564,652	68,932,496
Negative goodwill	20	(91,437)	(237,215)
Investment property	21	653,915	492,779
Intangible fixed assets	22	466,876	651,818
Property and equipment	23	6,711,829	6,827,237
Deferred tax assets	31	115,880	-
Other assets, including tax assets	24	3,467,355	3,639,664
Total assets		308,102,587	282,493,080
LIABILITIES			
Due to other banks	25	20,466,487	11,214,206
Other deposits	26	1,400,000	2,870,000
Derivative financial instruments and other trading liabilities	17	650,568	751,514
Due to customers	27	210,268,485	198,073,081
Debt securities in issue	28	2,295,863	2,863,502
Other borrowed funds	29	27,424,404	22,441,024
Other liabilities, including tax liabilities	30	8,206,089	9,711,273
Deferred tax liabilities	31	1,410,535	968,636
Total liabilities		272,122,431	248,893,236
SHAREHOLDERS' EQUITY			
Share capital	34	5,064,890	5,064,890
Share premium	34	877,625	877,625
Less treasury shares	34	(158,148)	(109,163)
Reserves	35	23,914,000	19,810,046
Provision for general banking risk	36	1,350,175	1,350,175
Retained earnings		4,931,614	6,606,271
Total shareholders' equity		35,980,156	33,599,844
Total equity and liabilities		308,102,587	282,493,080

These financial statements have been approved for issue by the Board of Directors on 31 March 2004 and signed on its behalf by:

Vojko Čok
President of the Management Board

Mariza Virágh
Chief Financial Officer

The following notes on pages 54 to 95 form an integral part of these consolidated financial statements.

Statement of changes in shareholders' equity

(all amounts expressed in thousands of SIT)

	Note	Share capital	Share premium	Treasury shares	Provision for general banking risk	Reserves	Retained earnings	Total
Balance at 1 January 2002		**5,064,890**	**877,532**	**(109,800)**	**1,120,592**	**16,321,088**	**6,382,121**	**29,656,423**
Profit for the year		-	-	-	-	-	4,912,819	4,912,819
Dividend for 2001		-	-	-	-	-	(1,068,615)	(1,068,615)
Purchases/sales of treasury shares		-	93	637	-	-	-	730
Net fair value gains, net of tax on available-for-sale investments		-	-	-	-	98,487	-	98,487
Transfer to legal reserves		-	-	-	-	292,286	(292,286)	-
Transfer to statutory reserves		-	-	-	-	3,327,768	(3,327,768)	-
Transfer		-	-	-	229,583	(229,583)	-	-
Balance at 31 December 2002		**5,064,890**	**877,625**	**(109,163)**	**1,350,175**	**19,810,046**	**6,606,271**	**33,599,844**
Profit for the year		-	-	-	-	-	4,619,585	4,619,585
Dividend for 2002	37	-	-	-	-	-	(2,539,349)	(2,539,349)
Purchases/sales of treasury shares	34	-	-	(48,985)	-	-	-	(48,985)
Increase of treasury shares fund		-	-	-	-	48,985	(48,985)	-
Net fair value gains, net of tax on available-for-sale investments	35	-	-	-	-	349,061	-	349,061
Transfer to legal reserves	35	-	-	-	-	212,546	(212,546)	-
Transfer to statutory reserves	35	-	-	-	-	3,493,362	(3,493,362)	-
Balance at 31 December 2003		**5,064,890**	**877,625**	**(158,148)**	**1,350,175**	**23,914,000**	**4,931,614**	**35,980,156**

An analysis of the movements in each category within 'Reserves' is presented in Note 35.

The following notes on pages 54 to 95 form an integral part of these consolidated financial statements.

Cash flow statement

(all amounts expressed in thousands of SIT)

	Notes	2003	2002
Cash flows from operating activities			
Interest receipts		16,183,883	18,739,452
Interest payments		(8,667,316)	(9,450,807)
Dividend receipts		171,820	294,627
Fee and commission receipts		5,592,155	3,453,128
Other income received		2,326,910	1,990,092
Recoveries on loans previously written off		14,781	5,539
Cash payments to employees and suppliers		(8,291,552)	(7,738,711)
Income taxes paid		(2,410,400)	(855,277)
Cash flows from operating activities before changes in operating assets and liabilities		4,920,281	6,438,043
Changes in operating assets and liabilities:			
Net increase in trading securities		(1,133,064)	(3,170,684)
Net decrease in loans and advances to banks		-	3,879,482
Net increase in loans and advances to customers		(22,573,375)	(20,688,499)
Net decrease in other assets		413,495	3,276,700
Net increase/decrease in deposits from other banks		3,816,679	(753,213)
Net decrease/ increase in other deposits		(1,470,000)	620,000
Net increase in amounts due to customers		15,247,985	23,802,629
Net decrease/ increase in other liabilities		(90,719)	797,814
Net cash from operating activities		(868,718)	14,202,272
Cash flows from investing activities			
Disposal of subsidiaries, net of cash disposed		-	2,682,588
Purchase of property, equipment and intangibles		(1,764,556)	(2,795,092)
Proceeds from sale of property, equipment and intangibles		169,382	77,381
Purchases of investment securities		(50,018,345)	(141,748,200)
Proceeds from sales of investment securities		52,188,046	116,021,048
Net cash used in investing activities		574,527	(25,762,275)
Cash flows from financing activities			
Proceeds from borrowed funds and debt securities		88,814,096	79,478,711
Repayments of borrowed funds and debt securities		(83,932,033)	(66,620,191)
Sale of treasury shares		-	102
Purchase of treasury shares		(48,985)	-
Dividends paid		(2,538,705)	(1,069,268)
Net cash from financing activities		2,294,373	11,789,354
Effect of exchange rate changes on cash and cash equivalents		(264,024)	(473,225)
Net increase in cash and cash equivalents		**1,736,158**	**(243,874)**
Cash and cash equivalents at beginning of year	38	32,838,891	33,082,765
Cash and cash equivalents at end of year	38	**34,575,049**	**32,838,891**

The following notes on pages 54 to 95 form an integral part of these consolidated financial statements.

Index to the accounting policies

ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

A) Basis of presentation

These financial statements are prepared in accordance with International Financial Reporting Standards and under the historical cost convention as modified by the revaluation of certain assets.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent asset and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. The Bank maintains its records in accordance with Slovenian Banking Regulations. These financial statements have been prepared from those accounting records and adjusted as necessary in order to comply with International Financial Reporting Standards issued by the International Standard Board.

B) Consolidation

Subsidiaries, which are those companies and other entities (including Special Purpose Entities) in which the Bank, directly or indirectly, has power to govern the financial and operating policies, are consolidated.

The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Bank controls another entity.

Subsidiaries are consolidated from the date on which control is transferred to the Bank and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. See note K for the accounting policy on goodwill. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Bank.

C) Foreign currencies

Income and expenditure arising in foreign currencies are translated into Slovene tolars at the official rates of exchange ruling at the transaction date. Gains and losses resulting from foreign currency translation and foreign currency dealings are included in the income statement for the year. Monetary assets and liabilities denominated in foreign currencies are translated into Slovene tolars at the midmarket exchange rate ruling on the last day of the accounting period and the differences are included in the income statement as net foreign exchange gains or losses.

D) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

E) Interest and expense

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium on treasury bills and other discounted instruments. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

F) Fee and commission income

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Loan origination fees for loans, which are probable of being, drawn down, are deferred (together with related direct cost) and recognized as an adjustment to the effective yield on the loan. Commission and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of business, are recognized on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts. Asset management fees related to investment funds are recognized rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

G) Trading securities

Trading securities are securities, which were either acquired for generating a profit from short-term fluctuations (within a year) in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists. Trading securities are initially recognised at cost (which includes transactions costs) and subsequently re-measured at fair value based on quoted bid prices. All related realised and unrealised gains and losses are included in net trading income. Interest earned whilst holding trading securities is reported as interest income. Dividends received are included separately in dividend income.

All purchases and sales of trading securities that require delivery within the time frame established by regulation or market convention are recognised at trade date, which is the date that the Bank commits to purchase or sell the asset.

H) Investment and originated loans

The Bank classified its investments into the following three categories: held-to-maturity, available-for-sale-assets and originated loans. Investment securities with fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale. Management determines the appropriate classification of its investments at the time of the purchase.

Investment securities are initially recognised at cost (which includes transaction costs). Available-for-sale financial assets are subsequently re-measured at fair value based on quoted bid prices or amounts derived from cash flow models. Fair values for unquoted equity instruments are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. Equity securities for which fair values cannot be measured reliably are recognized at cost less impairment. When the securities are disposed of or impaired, the related accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

As regard originated loans, the Bank values them at amortized cost less any provision for impairment.

Held-to-maturity investments are carried at amortised cost less any provision for impairment.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the assets carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate. By comparison, the recoverable amount of an instrument measured at fair value is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset.

H) Investment and originated loans (continued)

Interest earned on investment securities is reported as interest income. Dividends received are included separately in dividend income when dividend is declared. All regular way purchases and sales of investment securities are recognised at trade date, which is the date that the Bank commits to purchase or sell the assets. All regular way purchases and sales of investment securities are recognised at trade date, which is the date that the Bank commits to purchase or sell the asset.

I) Originated loans and provisions for loan impairment

Loans originated by the Bank by providing money directly to the borrower or to a sub-participation agent at draw down are categorised as loans originated by the Bank and are carried at amortised cost, which is defined as the fair value of cash consideration given to originate those loans as is determinable by reference to market prices at origination date, and the book values approximate the fair value. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction. All loans and advances are recognised when cash is advanced to borrowers.

An allowance for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

The loan loss provision also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon the historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate. When a loan is uncollectable, it is written off against the related provision for impairments; subsequent recoveries are credited to the provision for loan losses in the income statement.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited as a reduction of the provision for loan losses.

J) Other credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

K) Negative goodwill

Negative goodwill represents the excess of the fair value of the Bank's share of the net assets of the acquired subsidiary at the date of acquisition over the cost of an acquisition. Negative goodwill on acquisitions of subsidiaries is amortised using the straight-line method over its estimated useful life.

L) Investment property

Investment property comprises freehold land and buildings that are not occupied substantially for use by, or in the operations of the Bank. The Bank has elected to account for investment property in accordance with IAS 40, using the cost method. Investment property is carried at cost less accumulated depreciation and less any provision for impairment.

M) Computer software development costs

Costs associated with developing computer software programmes are recognised as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Bank and will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads.

Expenditure, which enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of 2 years.

N) Property and equipment

Property and equipment is carried at depreciated revalued amounts less any subsequent impairment loss. Revaluations are based on the fair value of the assets. An upward revaluation of assets is credited directly to the shareholders' equity unless it reverses a decrease on the same assets previously charged to income. A downward revaluation is charged to expense unless there is a balance in the revaluation surplus arising from a previous upward revaluation of the same assets.

N) Property and equipment (continued)

Depreciation is calculated on the straight line basis at rates designed to write off cost or valuation of property and equipment over their estimated useful lives as follows:

	Estimated useful life (in years)
Buildings	20
Motor vehicles	3 - 8
Other equipment	3 - 4
Hardware equipment	2

Land is included at revalued cost and is not depreciated. Assets in the course of transfer are not depreciated until they are brought into use.

Property and equipment are periodically (every five years) reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the income statement when the expenditure is incurred.

Land is included at revalued cost and is not depreciated. Assets in the course of transfer are not depreciated until they are brought into use.

Property and equipment are periodically (every five years) reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the income statement when the expenditure is incurred.

O) Intangible assets

Intangible assets are recorded at cost. Depreciation is calculated on the straight line basis to write off cost of intangible assets over their estimated useful lives of between two and five years as follows:

	Estimated useful life (in years)
Licences	3 - 5
Software	2
Other intangible assets	3 - 5

P) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and balances with central bank, treasury bills and other eligible bills, amounts due from other banks and dealing securities readily convertible to a known amount of cash.

Q) Share capital and Treasury shares

(1) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are declared. Dividends for the year which are declared after the balance sheet date are dealt with in the subsequent events note.

(2) Treasury shares

Where the Bank purchases its share capital, the consideration paid including any attributable incremental external costs net of income taxes is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

R) Taxation

Taxation has been provided for in the financial statements in accordance with Slovenian legislation currently in force. The charge for taxation in the income statement for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the expected taxable profit for the year, using the tax enacted at the balance sheet date.

Deferred income tax is provided in full, using the balance sheet liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax. Deferred tax asset are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Income tax payable on profits, based on the applicable tax law in each jurisdiction is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available which these losses can be utilised against.

Deferred tax related to fair value re-measurement of available-for-sale investments, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss.

S) Segmental reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risk and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are 10 per cent or more of all the segment are reported separately.

T) Employee benefits

According to Slovenian legislation employees retire after 40 years of service. Subject to the fulfilment of certain statutory conditions they are entitled to lump sum severance pay. Employees are also entitled to long service bonus for every ten years of employment with the Bank.

These obligations are measured at the present value of the estimated future cash outflows. All gains and losses are recognised in income.

U) Comparatives

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year.

V) Derivative financial instruments

Derivative financial instruments including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased) and other derivative financial instruments are initially recognised in the balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivatives held for trading are included in net trading income.

W) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

X) Borrowings

Borrowings are recognised initially at 'cost'. They are subsequently stated at amortised cost and any difference between net proceeds and redemption value is recognised in the income statement over the period of the borrowings using the effective yield method.

Y) Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the Bank acts in a fiduciary capacity such as nominee, trustee or agent.

Z) Pensions

The Bank and its subsidiaries contribute to state pension schemes (8.85% of gross salaries) and do not have any separate pension scheme arrangements.

A) Strategy in using financial instruments

By its nature the Bank's activities are principally related to the use of financial instruments. The Bank accepts deposits from customers mainly at floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due.

The Bank also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to corporate and retail borrowers with a range of credit standings. Such exposures involve just on-balance sheet loans and advances but the Bank also enters into guarantees and other commitments such as letters of credit and performance, and other bonds.

The Bank also trades in financial instruments where it takes positions in traded instruments including derivatives to take advantage of short-term market movements in the equity and bond markets and in currency and interest rate. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions.

B) Capital adequacy

The Bank monitors the adequacy of its capital using ratios established by the Bank for International Settlements (BIS). These ratios measure capital adequacy (minimum 8% as required by the BIS) by comparing the Bank's eligible capital with its balance sheet assets, off-balance-sheet commitments and market and other risk positions at a weighted amount to reflect their relative risk.

Assets are weighted according to broad categories of notional risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weighting (0%, 20%, 50%, 100%) are applied; for example cash and money market instruments have a zero risk weighting which means that no capital is required to support the holding of these assets. Property and equipment carries a 100% risk weighting, meaning that it must be supported by capital equal to 8 % of the carrying amount. Other asset categories have intermediate weightings. The loan portfolio insured by mortgages have been weighted at 100% risk; however, the regulations of Bank of Slovenia define such claims as 50% risk.

Off-balance sheet credit related commitments, forward and option based derivative instruments are taken into account by applying different categories of credit conversion factors, designed to convert these items into balance sheet equivalents. The resulting credit equivalent amounts are then weighted for credit risk using the same percentages as for balance sheet assets.

Tier 1 capital consists of shareholders' equity plus negative goodwill. Tier 2 capital includes the Bank's eligible revaluation reserves and general provisions.

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

B) Capital adequacy (continued)

(all amounts expressed in thousand of SIT)

	Balance sheet/ Nominal amount		Risk weighted amount	
	2003	**2002**	**2003**	**2002**
Balance sheet assets (net of provisions)				
Due from other banks	22,259,452	27,234,105	4,451,890	5,446,821
Loans and advances to customers	159,746,682	137,547,626	136,842,900	116,962,292
Trading and investment securities	107,425,562	100,257,145	2,327,111	1,951,710
Derivative financial instruments	128,413	75,225	128,413	75,225
Property investment	653,915	492,779	653,915	492,779
Intangible fixed assets	466,876	651,818	466,876	651,818
Property and equipment	6,711,829	6,827,237	6,711,829	6,827,237
Other assets	3,491,798	3,327,224	2,480,568	2,160,396
Unassigned market-risk components			36,123,397	37,252,692
Off balance sheet positions				
Credit related commitments	57,258,622	82,697,716	27,907,396	24,099,260
Forwards-based derivative instruments	9,359,006	3,160,785	150,954	264,872
Total risk- weighted assets			**218,245,249**	**196,185,102**

BIS Capital Ratios

	Capital		BIS%	
	2003	**2002**	**2003**	**2002**
Tier 1 capital	30,402,339	28,516,866	13.93	14.54
Tier 1 + Tier 2 capital	36,071,593	33,837,059	16.53	17.25

C) Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in, full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, industry sector and by country are approved by the Management Board.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Geographical concentration of assets, liabilities and off -balance sheet items

The Bank operates principally in its home country of Slovenia. Transactions with entities in other countries are in the form of interbank relations principally relating mostly to deposits and borrowed funds, only a small part of customers lending (SIT 4,458,403 thousand) relates principally to the countries of former Yugoslavia.

C) Credit risk (continued)

In total, net credit risk exposure to foreign banks and other financial institutions amounted to SIT 20,886,616 thousand as at 31 December 2003 (SIT 27,575,332 thousand as at 31 December 2002).

Derivatives

The Bank maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any one time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the group requires margin deposits from counterparties.

D) Market risk

The Bank is exposed to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The management of this risk is carried out by the Risk Management Department. The Management Board sets limits on the level of risk that may be accepted, which is monitored on a daily basis.

The daily market value at risk measure (VAR) is an estimate, with a confidence level set at 99%, of the potential loss which might arise if the current positions were to be held unchanged for ten days holding period. The measurement is structured so that daily losses exceeding the VAR figure should occur, on average, not more than once every hundred days. Actual outcomes are monitored regularly to test the validity of the assumptions and parameters/factors used in the VAR calculation.

Since VAR constitutes an integral part of the, Bank's market risk control regime, VAR limits are established by the Board for all trading and portfolio operations; actual exposure against limits is reviewed weekly by management.

E) Currency risk

The Bank is exposed to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Management Board sets limits on the level of exposure by currency and in total, which are monitored daily. Regarding the open currency position the Bank has been managing possible currency risks, considering positive effects of the long currency position in Slovenian Tolars more than covered the negative impact of the open currency position. The Bank expects further lowering of the devaluing rate for foreign currency in comparison to the revaluation rate. Therefore, the Bank believes that the open currency position does not represent a major currency risk. In case Bank's expectations prove wrong, the short currency position could be covered quickly considering a surplus of foreign exchange currencies in the Slovenian foreign exchange market.

Concentration of assets, liabilities and off-balance sheet items

The table summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2003. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency.

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

E) Currency risk (continued)

As at 31 December 2003	EUR	USD	SIT	Other	Total
Assets					
Cash and balances with central bank	679,029	88,763	6,338,068	112,200	7,218,060
Treasury bills and other eligible bills	-	-	23,687,460	-	23,687,460
Due from other banks	11,805,398	7,106,698	1,240,470	2,106,886	22,259,452
Trading securities	172,635	-	8,000,815	-	8,173,450
Derivative financial instruments	-	-	128,413	-	128,413
Loans and advances to customers	35,675,765	814,163	122,273,584	983,170	159,746,682
Investment securities	36,993,356	10,070,785	28,500,511	-	75,564,652
- held to maturity	34,769,534	10,070,785	881,626	-	45,721,945
- available for sale	2,223,822	-	12,623,615	-	14,847,437
- originated securities	-	-	14,995,270	-	14,995,270
Investment property	-	-	653,915	-	653,915
Intangible fixed assets	-	-	466,876	-	466,876
Property and equipment	-	-	6,711,829	-	6,711,829
Deferred tax assets	-	-	115,880	-	115,880
Other assets, including tax assets	448,026	46,986	2,966,788	5,555	3,467,355
Negative goodwill	-	-	(91,437)	-	(91,437)
Total assets	**85,774,209**	**18,127,395**	**200,993,172**	**3,207,811**	**308,102,587**
Liabilities					
Due to other banks	6,284,987	24,776	14,156,668	56	20,466,487
Other deposits	-	-	1,400,000	-	1,400,000
Derivative financial instruments and other trading liabilities	-	-	650,568	-	650,568
Due to customers	63,989,827	17,899,395	125,884,378	2,494,885	210,268,485
Debt securities in issue	-	-	2,295,863	-	2,295,863
Other borrowed funds	24,671,624	67,621	2,015,000	670,159	27,424,404
Deferred tax liabilities	-	-	1,410,535	-	1,410,535
Other liabilities, including tax liabilities	840,266	80,185	7,247,283	38,355	8,206,089
Total liabilities	**95,786,704**	**18,071,977**	**155,060,295**	**3,203,455**	**272,122,431**
Net balance sheet position	**(10,012,495)**	**55,418**	**45,932,877**	**4,356**	**35,980,156**
Credit commitments	**7,293,286**	**654,394**	**49,472,287**	**164,893**	**57,584,860**

As at 31 December 2002	EUR	USD	SIT	Other	Total
Total assets	68,745,620	22,322,319	188,146,467	3,278,674	282,493,080
Total liabilities	77,141,048	22,145,262	146,518,572	3,088,354	248,893,236
Net balance sheet position	(8,395,428)	177,057	41,627,895	190,320	33,599,844
Credit commitments	5,978,751	33,097,637	43,744,967	141,176	82,962,531

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

F) Interest rate risk

Interest sensitivity of assets and liabilities

The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored monthly. In 2003 the Bank managed its interest rate policy considering special legislation concerning the interest rate for late payments and basic interest rate in relation to liability related interest rates.

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

Maturity dates do not differ significantly from the contract dates, except for the maturity of SIT 177,525,175 thousand (2002: SIT 128,033,312 thousand) of Due to customers up to 1 month, of which 60 % (2002: 60 %) represent balances on current accounts considered by the Bank as a relatively stable core source of funding for its operations.

As at 31 December 2003	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and central bank balances	4,397,569	-	-	-	-	2,820,491	7,218,060
Treasury and other eligible bills	3,263,546	3,101,459	17,322,455	-	-	-	23,687,460
Due from other banks	22,209,952	49,500	-	-	-	-	22,259,452
Trading securities	1,484,825	-	-	551,817	142,995	5,993,813	8,173,450
Derivatives	-	-	-	-	-	128,413	128,413
Loans to customers	148,990,398	2,959,185	6,654,967	74,682	21,045	1,046,405	159,746,682
Investment securities:	31,848,602	18,671,523	16,908,673	2,862,265	1,511,545	3,762,044	75,564,652
- available-for-sale	6,711,583	-	-	2,862,265	1,511,545	3,762,044	14,847,437
- originated securities	14,995,270	-	-	-	-	-	14,995,270
- held-to-maturity	10,141,749	18,671,523	16,908,673	-	-	-	45,721,945
Other assets	-	-	-	-	-	11,324,418	11,324,418
Total assets	**212,194,892**	**24,781,667**	**40,886,095**	**3,488,764**	**1,675,585**	**25,075,584**	**308,102,587**
Liabilities							
Due to other banks	14,953,739	1,488,881	4,023,867	-	-	-	20,466,487
Other deposits	-	-	450,000	950,000	-	-	1,400,000
Derivatives	-	-	-	-	-	650,568	650,568
Due to customers	145,059,371	36,430,581	28,778,533	-	-	-	210,268,485
Debt securities in issue	2,295,863	-	-	-	-	-	2,295,863
Other borrowed funds	25,805,671	1,102,312	516,421	-	-	-	27,424,404
Deferred tax liabilities	-	-	-	-	-	1,410,535	1,410,535
Other liabilities	-	-	-	-	-	8,206,089	8,206,089
Total liabilities	**188,114,644**	**39,021,774**	**33,768,821**	**950,000**	**-**	**10,267,192**	**272,122,431**
On-balance sheet Interest sensitivity gap	**24,080,248**	**(14,240,107)**	**7,117,274**	**2,538,764**	**1,675,585**		

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

F) Interest rate risk (continued)

The table below summarises the effective annual interest rate by major currencies for monetary financial instruments:

As at 31 December 2003	EUR	USD	SIT
Assets			
Cash and balances with central bank	-	-	1.00
Treasury bills and other eligible bills	-	-	6.48
Due from other banks	2.13	1.07	3.96
Trading securities- debt securities	-	-	8.16
Loans and advances to customers	3.07	1.31	9.01
Investment securities- debt securities	2.15	1.01	8.34
Liabilities			
Due to other banks	2.16	-	8.36
Other deposits	-	-	9.49
Due to customers	1.12	0.49	4.67
Debt securities in issue	-	-	11.79
Other borrowed funds	2.70	-	5.65

As at 31 December 2002	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and central bank balances	4,009,787	-	-	-	-	1,994,909	6,004,696
Treasury and other eligible bills	1,360,420	3,332,368	17,977,548	-	-	-	22,670,336
Due from other banks	23,609,782	3,316,764	-	-	-	307,559	27,234,105
Trading securities	1,108,659	-	-	161,056	445,602	6,938,996	8,654,313
Derivatives	-	-	-	-	-	75,225	75,225
Loans to customers	132,456,153	1,151,224	2,827,142	336,015	-	777,092	137,547,626
Investment securities:							
- available-for-sale	-	-	-	-	32,855	3,761,888	3,794,743
- originated securities	21,069,309	-	-	796,164	2,032,875	-	23,898,348
- held-to-maturity	20,723,833	3,875,544	16,640,028	-	-	-	41,239,405
Other assets	628,044	-	-	-	-	10,746,239	11,374,283
Total assets	**204,965,987**	**11,675,900**	**37,444,718**	**1,293,235**	**2,511,332**	**24,601,908**	**282,493,080**
Liabilities							
Due to other banks	4,178,968	459,404	2,683,209	3,822,520	-	70,105	11,214,206
Other deposits	-	1,920,000	-	950,000	-	-	2,870,000
Derivatives	-	-	-	-	-	751,514	751,514
Due to customers	128,033,312	44,044,133	19,004,834	5,076,910	237,698	1,676,194	198,073,081
Debt securities in issue	2,863,502	-	-	-	-	-	2,863,502
Other borrowed funds	19,569,034	2,750,000	-	-	-	121,990	22,441,024
Other liabilities	-	-	-	-	-	10,679,909	10,679,909
Total liabilities	**154,644,816**	**49,173,537**	**21,688,043**	**9,849,430**	**237,698**	**13,299,712**	**248,893,236**
On-balance sheet Interest sensitivity gap	**50,321,171**	**(37,497,637)**	**15,756,675**	**(8,556,195)**	**2,273,634**		

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

F) Interest rate risk (continued)

The table below summarises the effective annual interest rate by major currencies for monetary financial instruments:

As at 31 December 2002	EUR	USD	SIT
Assets			
Cash and balances with central bank	-	-	1.00
Treasury bills and other eligible bills	-	-	10.81
Due from other banks	2.97	1.34	8.75
Trading securities- debt securities	-	-	9.54
Loans and advances to customers	3.95	3.12	12.36
Investment securities- debt securities	3.11	1.50	7.47
Liabilities			
Due to other banks	-	-	9.26
Other deposits	-	-	12.06
Due to customers	2.11	0.82	7.20
Debt securities in issue	-	-	12.12
Other borrowed funds	3.55	-	6.19

G) Liquidity risk

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns and guarantees.

Short-term mismatch risk has been within reasonable limits considering the long-term prognosis for repayable on demand deposits, which have been showing stable growth. There has been no question surrounding the Bank's capacity to meet its current obligations in time. The possible mismatch regarding the current inflows and current outflows can be easily overcome by activating the secondary liquidity with the central bank. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The table below analyses assets and liabilities of the Bank by relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

G) Liquidity risk (continued)

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

Maturities of assets and liabilities

As at 31 December 2003	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and central banks balances	2,843,144	-	-	-	4,374,916	7,218,060
Treasury and other eligible bills	3,263,546	3,767,985	16,655,929	-	-	23,687,460
Due from other banks	22,209,952	49,500	-	-	-	22,259,452
Trading securities	6,087,188	295,342	-	1,364,435	426,485	8,173,450
Derivative financial instruments	58,535	44,302	25,576	-	-	128,413
Loans to customers	13,345,741	16,019,911	58,015,448	54,835,721	17,529,861	159,746,682
Investment securities:	9,315,225	18,771,883	17,448,185	11,237,794	18,791,565	75,564,652
- available-for-sale	-	100,360	-	9,343,749	5,403,328	14,847,437
- originated securities	-	-	484,410	1,453,232	13,057,628	14,995,270
- held-to-maturity	9,315,225	18,671,523	16,963,775	440,813	330,609	45,721,945
Other assets	1,643,520	782,831	509,418	520,913	7,867,736	11,324,418
Total assets	**58,766,851**	**39,731,754**	**92,654,556**	**67,958,863**	**48,990,563**	**308,102,587**
Liabilities						
Due to other banks	6,610,254	3,328,567	3,509,068	7,018,598	-	20,466,487
Other deposits	-	-	450,000	950,000		1,400,000
Derivative financial instruments and other trading liabilities	-	34,306	124,559	-	491,703	650,568
Due to customers	128,012,170	38,042,357	35,268,915	8,251,521	693,522	210,268,485
Debt securities in issue	-	-	295,863	2,000,000	-	2,295,863
Other borrowed funds	1,115,000	950,578	620,798	24,738,028	-	27,424,404
Other liabilities	3,438,676	593,009	582,675	641,818	4,360,446	9,636,327
Total liabilities	**139,176,100**	**42,948,817**	**40,851,878**	**43,599,965**	**5,545,671**	**272,122,431**
Net liquidity gap	**(80,409,249)**	**(3,217,063)**	**51,802,678**	**24,358,898**	**43,444,892**	**35,980,156**

As at 31 December 2002	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Total assets	66,397,999	28,441,944	80,480,661	59,471,168	47,701,308	282,493,080
Total liabilities	125,856,788	44,512,021	37,157,989	36,109,511	5,256,927	248,893,236
Net liquidity gap	**(59,458,789)**	**(16,070,077)**	**43,322,672**	**23,361,657**	**42,444,381**	**33,599,844**

H) Fair values of financial assets and liabilities

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price. Management using available market information, where it exists, and appropriate valuation methodologies has determined the estimated fair values of financial instruments. However, judgement is necessarily required to interpret market data to determine the estimated fair value.

H) Fair values of financial assets and liabilities (continued)

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis.

Securities held for trading and available for sale are measured at fair value. Originated securities and loans and held to maturity assets are measured at amortised cost less impairment.

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

Loans and advances

Fair value of loans and advances is calculated based on discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. For loans that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when interest rates were at levels similar to current levels, adjusted for any differences in interest rate outlook. Expected future cash flows are estimated considering credit risk and any indication of impairment. Expected future cash flows for homogeneous categories of loans, such as residential mortgage loans, are estimated on a portfolio basis and discounted at current rates offered for similar loans to new borrowers with similar credit profiles. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans. As the Bank has very limited portfolio of loans and advances with fixed rate and longer-term maturity, the fair value of loans and advances is not significantly different from their carrying value.

Investments carried at cost

For most of investments carried at amortised cost less impairment a quoted market price is not available and fair value is, where possible, estimated using discounted cash flow techniques. Estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date.

Bank and customer deposits

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the balance sheet date. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The value of long-term relationships with depositors is not taken into account in estimating fair values. As most of the Bank's deposits are given with variable rate, being market rate, there is no significant difference between the fair value of these deposits and their carrying value.

Borrowings

Most of the Bank's long-term debt has no quoted market prices and fair value is estimated as the present value of future cash flows, discounted at interest rates available at the balance sheet date to the Bank for new debt of similar type and remaining maturity. Again, as the majority of the Bank's long-term debt is with variable interest rates there is no significant difference between their carrying and fair value.

Index to the notes to the financial statements

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS

1) Business segments

The Bank is organised into three main business segments:

- **Retail banking:** Individuals, sole proprietors and small enterprises: comprises private customer current accounts, savings, deposits, investment products, credit and debit cards, foreign exchange trading, payment transactions, loans, advances and mortgages.
- **Corporate banking:** Corporate and institutional clients: comprises direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency, payment transactions and derivative products.
- **Investment banking:** Treasury: Issue of debt securities, currency and securities trading, money market transactions and other asset management products.

Other operations of the Bank comprise non-banking services such as providing computer services and leasing.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in segments results. Interest charged for these funds is based on the Bank's cost capital. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet and excluding items such as taxation and borrowings.

Capital expenditure comprises additions to property and equipment. Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

1) Business segments (continued)

Primary segment information

Year ended 31 December 2003	Retail banking	Corporate banking	Investment banking	Other	Eliminations	Total
External revenues	10,401,300	9,165,312	6,166,552	2,548,707	-	28,281,871
Revenues from other segments	5,550,182	-	-	1,127,689	(6,677,871)	-
Total revenues	**15,951,482**	**9,165,312**	**6,166,552**	**3,676,396**	**(6,677,871)**	**28,281,871**
Segment result	5,188,595	3,474,176	(754,169)	(1,869,252)	-	6,039,350
Unallocated income (from negative goodwill)						145,778
Profit before tax						6,185,128
Income tax expense						(1,565,543)
Net profit for the period						**4,619,585**
Segment assets	59,207,853	103,067,437	136,245,579	9,673,155	-	308,194,024
Unallocated assets (negative goodwill)						(91,437)
Total assets						**308,102,587**
Segment liabilities	186,961,260	32,524,509	48,463,263	4,173,399	-	272,122,431
Total liabilities						**272,122,431**
Capital expenditure	1,242,763	432,516	98,037	-	-	1,773,316
Depreciation	1,162,813	404,691	91,730	-	-	1,659,234
Amortisation	-	-	-	145,778	-	145,778

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

1) Business segments (continued)

Primary segment information

Year ended 31 December 2002	Retail banking	Corporate banking	Investment banking	Other	Eliminations	Total
External revenues	9,087,709	10,137,172	6,736,439	2,286,545	-	28,247,865
Revenues from other segments	6,716,775	-	-	1,300,993	(8,017,768)	-
Total revenues	**15,804,484**	**10,137,172**	**6,736,439**	**3,587,538**	**(8,017,768)**	**28,247,865**
Segment result	4,795,790	3,066,344	(1,407,538)	(1,667,024)	-	4,787,572
Unallocated income (from negative goodwill)						356,452
Profit from operations						5,144,024
Gain from disposal of subsidiary before tax						1,457,323
Profit before tax						6,601,347
Income tax expense						(1,688,528)
Net profit for the period						**4,912,819**
Segment assets	49,544,741	91,296,498	133,121,133	8,767,923	-	282,730,295
Unallocated assets (negative goodwill)						(237,215)
Total assets						**282,493,080**
Segment liabilities	169,322,913	35,587,854	39,865,501	4,116,968	-	248,893,236
Total liabilities						**248,893,236**
Capital expenditure	1,662,452	492,978	129,542	-	-	2,284,972
Depreciation	1,115,163	330,688	86,896	-	-	1,532,747
Amortisation	-	-	-	356,452	-	356,452

2) Net interest income

Net interest income

	2003	2002
Interest and discount income		
Central bank deposits	65,442	81,443
Treasury bills and marketable securities	2,278,450	1,415,699
Bank deposits and loans	631,844	1,096,755
Loans and advances to other customers	13,002,306	14,527,056
Investment securities	3,005,980	3,546,915
Other	81,302	11,621
	19,065,324	20,679,489
Interest expense		
Bank deposits and loans	2,289,404	2,201,929
Other customers	7,270,911	8,795,990
Debt securities in issue	474,879	697,577
	10,035,194	11,695,496

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

3) Net fee and commission income

	2003	2002
Fee and commission income		
Guarantees	180,204	176,439
Payment transactions	1,356,419	1,301,861
Credit related fees	621,998	554,196
Debit/credit card money transactions	3,360,510	2,983,919
Other	750,475	637,280
	6,269,606	5,653,695
Fee and commission expense		
Bank services	454,778	394,306
Money transfer	193,783	211,233
Other	25,959	25,377
	674,520	630,916

4) Dividend income

	2003	2002
Trading securities	144,188	114,773
Investment securities	27,633	3,051
	171,821	117,824

5) Net trading income

	2003	2002
Foreign exchange translation losses less gains	(259,177)	(113,720)
Currency trading	256,600	207,707
Securities trading		
- equities	1,005,628	1,255,587
- debt securities	7,934	25,749
- derivatives	429,806	(472,000)
	1,440,791	903,323

6) Gains less losses from investment securities

	2003	2002
Income due to sale of investment securities	20,021	48,217
Other	-	-
	20,021	48,217

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

7) Other operating income

	2003	2002
Rent	204,535	118,827
Amortisation of negative goodwill	145,778	356,452
Other	963,995	370,038
	1,314,308	845,317

8) Operating expenses

	2003	2002
Staff costs (Note 9)	5,629,844	4,567,360
Material costs	411,192	416,586
Maintenance costs	406,890	386,518
Rent	327,471	302,891
Professional services	1,250,799	1,136,386
Advertising and marketing	305,677	291,501
Depreciation (Note 22, 23)	1,659,234	1,532,747
Other	493,806	478,183
	10,484,913	9,112,172

9) Staff costs

	2003	2002
Salaries	3,467,004	3,111,493
Social security costs	575,829	524,695
Pension costs	308,603	284,394
Retirement and long service bonus	474,649	-
Other	803,759	646,778
	5,629,844	4,567,360

The average number of persons employed by the Group during 2003 was 786 (2002: 776).

10) Impairment losses on loans and advances

	2003	2002
Amounts due from other banks (Note 15)	(52,707)	(77,447)
Loans and advances to customers (Note 18)	1,302,080	1,856,165
Provisions for off-balance sheet exposures (Note 32)	(462,586)	(200,899)
Other assets (Note 24)	34,009	(43,025)
Bad debts written off directly	96,101	136,002
Recoveries on loans previously written off	(14,781)	(5,539)
	902,116	1,665,257

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

11) Income tax expense

	2003	2002
Tax on profit	1,384,708	1,537,380
Deferred tax (Note 31)	180,835	151,148
Income tax expense	1,565,543	1,688,528

Further information about deferred income tax is presented in Note 31. The tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

Profit before tax	6,185,128	6,601,347
Differences from IAS to statutory reporting	(549,504)	781,764
Profit before tax	5,635,624	7,383,111
Prima facie tax calculated at a tax rate of 25% [2002: 25%]	1,408,906	1,845,778
Income not assessable for tax	(29,072)	(274,501)
Income assessable for tax (not recognised in income statement)	8,086	16,938
Expenses not deductible for tax purposes		
- Non-allowable provisions	-	175,396
- Other non deductible expenses	125,759	95,987
Tax relief	(128,971)	(322,218)
Tax on profit	1,384,708	1,537,380

In accordance with local regulations, the tax authorities may at any time inspect the Bank's books and records within 5 years subsequent to the reported tax year and may impose additional tax assessments and penalties. The Bank's management is not aware at any circumstances, which may give rise to a potential material liability in this respect.

12) Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Bank and held as treasury shares. There are no diluted potentional ordinary shares. There are no share options schemes.

	2003	2002
Net profit attributable to shareholders	4,619,585	4,912,819
Weighted average number of ordinary shares in issue	518,882	519,724
Basic earnings per share (expressed in SIT per share)	8,903	9,453

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

13) Cash and balances with central bank

	2003	2002
Cash in hand included in cash and cash equivalents (Note 38)	4,193,111	2,545,529
Mandatory reserve deposits with central bank	3,024,949	3,459,167
	7,218,060	6,004,696

Balances with central bank include mandatory reserve deposits of SIT 6,049,898 thousand. Half of these funds are not available to finance the Bank's day-to-day operations.

The Bank is required to maintain a mandatory reserve with the central bank (Bank of Slovenia), relative to the volume and structure of its customer deposits. The current requirement of the Bank of Slovenia regarding the calculation of the amount to be held as mandatory reserve is as follows:

- 4,5 % of sight deposits and time deposits of up to 90 days in local currency,
- 2 % of time deposits between 91 and two years in local and foreign currency.

The Bank maintains sufficient liquid assets to fully comply with central bank requirements.

14) Treasury bills and other eligible bills

	2003	2002
Included in cash and cash equivalents (Note 38)	5,531,531	776,200
Not included in cash equivalents (with maturity over 3 months)	18,155,929	21,894,136
	23,687,460	22,670,336

Treasury bills are debt securities for a term of three days to ten months. Bills are classified as originated loans and are carried at their amortized cost.

15) Due from other banks

	2003	2002
Items in course of collection from other banks	2,417,191	1,219,522
Placements with other banks	20,426,214	26,651,243
Included in cash and cash equivalents (Note 38)	22,843,405	27,870,765
Less specific provisions for impairment	(583,953)	(636,660)
	22,259,452	27,234,105

The above provisions refer mostly to the frozen deposit with Tržaška kreditna banka in liquidation (SIT 355,923 thousand) for which the bank has recorded value adjustments in the amount corresponding to 100% of its claim.

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

16) Trading securities

	2003	2002
Trading securities included in cash equivalents (Note 38)		
- government bonds	2,007,002	1,646,397
Trading securities not included in cash equivalents		
Debt securities		
- Listed	-	68,921
- Unlisted	172,635	69,796
Equity securities		
- Listed	5,263,678	6,139,064
- Unlisted	730,135	730,135
	8,173,450	8,654,313

At 31 December 2003 there are no securities pledged (2002:nil).

17) Derivative financial instruments and trading liabilities

Forward agreements on sale of marketable shares represent commitments to sell shares at the future date under the price stipulated in the contract. From the day of the signing of the contract the securities are already in the possession of the Bank and the Bank does not trade in these securities until the expiration of the contracting period. Therefore the Bank is not exposed to any market risk within the framework of these transactions. The maturity period for forward agreements is usually between 6 months and one year. The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market price, market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following table:

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

17) Derivative financial instruments and trading liabilities (continued)

Year ended 31 December 2003	Contract/notional amount	Fair values Assets	Fair values Liabilities
Interest rate derivatives			
Interest rate swaps	1,586,028	14,208	-
Cross-currency interest rate swaps	1,586,028	-	19,703
Other derivatives			
Forward agreement on sale of marketable shares	1,641,350	75,342	-
Forward agreement due to National Housing Saving Scheme commitments	23,541,000	-	472,000
Currency forward	4,545,600	38,863	158,865
Total derivative assets/(liabilities) held for trading		128,413	650,568

Year ended 31 December 2002	Contract/notional amount	Fair values Assets	Fair values Liabilities
Forward agreement on sale of marketable shares	3,160,785	75,225	279,514
Forward agreement due to National Housing Saving Scheme commitments	7,309,746	-	472,000
	10,470,531	75,225	751,514

18) Loans and advances to customers

	2003	2002
Loans to individuals:		
Overdrafts	7,311,943	6,791,016
Credit cards	2,486,892	2,359,424
Term loans	24,153,608	20,959,037
Mortgages	12,144,785	9,956,830
Other	68,001	-
Loans to corporate entities:		
Overdrafts	384,041	424,918
Credit cards	20,858	40,539
Commercial loans	123,266,336	105,839,627
Other	59,240	106,424
Gross loans and advances	169,895,704	146,477,815
Less provision for impairment	(10,149,022)	(8,930,189)
	159,746,682	137,547,626

Movement in provisions for impairment are as follows:

Balance at 1 January 2002	7,074,024
Additional provision for loan impairment	5,109,003
Recoveries of amounts previously provided	(3,252,838)
Balance at 31 December 2002	8,930,189
Additional provision for loan impairment	5,855,506
Bad debts written off (charged against specific provisions)	83,247
Recoveries of amounts previously provided	(4,719,920)
Balance at 31 December 2003	10,149,022

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

18) Loans and advances to customers (continued)

All loans were written down to their recoverable amounts. Economic sector risk concentrations within the customer loan portfolio were as follows:

	2003	2003 %	2002	2002 %
Government bodies	3,346,928	2	4,455,081	3
Trade	19,717,473	12	19,814,490	14
Services	51,097,895	30	40,081,786	27
Construction	5,626,456	3	5,359,082	4
Manufacturing	35,465,578	21	29,722,337	20
Agriculture	1,693,560	1	1,746,256	1
Private individuals	46,036,960	27	40,106,883	27
Other	6,910,854	4	5,191,900	4
Gross loans and advances	169,895,704	100	146,477,815	100
Less provision for impairment	(10,149,022)		(8,930,189)	
Net loans and advances	159,746,682		137,547,626	

Slovenian customers and customers from other European countries accounted for 98% and 2% of geographic sector risk concentration within the customer loan portfolio, respectively.

Loans and advances are further analysed as a part of the balance sheet in the following notes: Currency Risk Note E, Interest Rate Risk Note F, Liquidity Risk Note G, Fair value Note H and Related Party Transactions Note 40.

19) Investment securities

	2003	2002
Securities available- for- sale		
Debt securities		
- Listed	11,085,393	32,855
Equity Securities		
- Unlisted	3,762,044	3,761,888
Total securities available-for-sale	14,847,437	3,794,743
Originated loans		
- Listed	1,937,642	11,368,843
- Unlisted	13,057,628	12,529,505
Total originated lons	14,995,270	23,898,348
Securities held to maturity		
Debt securities		
- Listed	881,626	-
- Unlisted	44,840,319	41,239,405
Total securities held to maturity	45,721,945	41,239,405
Total investment securities	75,564,652	68,932,496

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

19) Investment securities (continued)

The originated loans classified as unlisted include government bonds issued in exchange for claims on the National Bank of former Yugoslavia in relation to deposits denominated in foreign currencies paid out to depositors. The bonds mature on 31 December 2014. Interest is payable semi-annually at the rate of 3% per annum on the revalued principal. The bonds are subject to revaluation at 90% of the annual rate of inflation.

The unlisted debt securities held-to-maturity relate to treasury bills in foreign currencies issued by Bank of Slovenia in amount of SIT 44,840,319 thousand (2002: SIT 41,239,405 thousand).

The movement in investment securities may be summarised as follows:

		2003		2002
	Available for sale	Originated loans	Held to maturity	Total
At beginning of the year	11,934,478	14,815,455	42,182,563	60,998,280
Additions	2,655,166	-	57,220,531	86,095,859
Exchange differences on monetary assets	34,480	-	(393,850)	(215,955)
Interests accrued on monetary assets	-	528,124	-	1,086,857
Disposals/Redemption	(238,587)	(348,309)	(53,287,299)	(79,133,698)
Gains from changes in fair value	461,900	-	-	101,153
At end of year	14,847,437	14,995,270	45,721,945	68,932,496

20) Negative goodwill

On 30 September 1999 Banka Koper acquired the remaining 40% of shares in the Slovenian bank M banka. The existing 60% shareholding was acquired in two steps: 51% in 1997 and 9% in April 1999.

	2003	2002
Opening net book amount	237,212	593,667
Amortisation charge	(145,775)	(356,452)
Closing net book amount	91,437	237,215
Cost	1,782,259	1,782,259
Accumulated amortisation	(1,690,822)	(1,545,044)
Net book amount	91,437	237,215

21) Investment property

	2003	2002
At beginning of year	492,779	480,569
Transfer from property and equipment adopting IAS 40	-	14,395
As restated at beginning of the year	492,779	494,964
Depreciation	-	(56,660)
Additions	161,136	54,475
At end of year	653,915	492,779

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

21) Investment property (continued)

The item other operating income from property investments carries rents in the amount of SIT 38,927 thousand (2002: SIT 46,446 thousand). Maintenance costs incurred under property investments totalled SIT 858 thousand tolars (2002: SIT 6,425 thousand). The bank has not obtained a valuation by independent professionally qualified valuer. But Bank's management believe that the carrying value is not substantially different from the fair value.

22) Intangible fixed assets

At 31 December 2002	
Cost	1,496,622
Accumulated amortisation	(844,804)
Net book amount	651,818
Opening net book amount	651,818
Additions	296,382
Dospolsals	(31,297)
Amortisation charge	(450,027)
Closing net book amount	466,876
At 31 December 2003	
Cost	1,761,707
Accumulated amortisation	(1,294,831)
Net book amount	466,876

23) Property and equipment

Property and equipment	Land and buildings	Hardware equipment	Other equipment	Total
At 31 December 2002				
Cost	9,256,547	2,917,135	2,698,387	14,872,069
Accumulated depreciation	(3,501,147)	(2,460,277)	(2,083,408)	(8,044,832)
Net book amount	5,755,400	456,858	614,979	6,827,237
Year ended December 2002				
Opening net book amount	5,755,400	456,858	614,979	6,827,237
Additions	474,425	414,359	529,077	1,417,861
Disposals	(317,384)	-	(3,682)	(321,066)
Depreciation charge	(435,066)	(465,185)	(308,956)	(1,209,207)
Valuation	-	-	(2,996)	(2,996)
Closing net book amount	5,477,375	406,032	828,422	6,711,829
At 31 December 2003				
Cost	9,730,972	3,331,494	3,227,464	16,289,930
Accumulated depreciation	(4,253,597)	(2,925,462)	(2,399,042)	(9,578,101)
Net book amount	5,477,375	406,032	828,422	6,711,829

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

24) Other assets

	2003	2002
Interest and commission receivables	854,668	1,204,333
Accrued interest	1,472,345	1,727,933
Advances	202,569	11,255
Transition accounts receivables	33,779	12,427
Taxes prepaid	166,556	-
Cheques	22,639	76,139
Claims to citizens	845,878	771,184
Other	616,685	550,148
Less provision for impairment	(747,764)	(713,755)
	3,467,355	3,639,664

25) Due to other banks

	2003	2002
Items in the course of collection from other banks	456,963	435,664
Deposits from other bank	20,009,524	10,778,542
	20,466,487	11,214,206

26) Other deposits

	2003	2002
Certificates of deposit		
- short-term	450,000	1,920,000
- long-term	950,000	950,000
	1,400,000	2,870,000

27) Due to customers

	2003	2002
Corporate customers		
- current/settlement accounts	15,838,901	14,105,490
- term deposits	21,841,126	24,673,005
Government bodies		
- current/settlement accounts	-	-
- term deposits	8,913,741	10,446,097
Private individuals		
- current/settlement accounts	69,269,863	62,559,391
- term deposits	94,404,854	86,289,098
	210,268,485	198,073,081

Included above were deposits of SIT 2,397,482 thousand (2002: SIT 2,007,798 thousand) held as collateral for irrevocable commitments under import letters of credit and against loans due to the Bank.

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

28) Debt securities in issue

	Average interest rate %	2003	2002
EURO medium term bonds due 2004	5	295,863	863,502
SIT medium term bonds due 2005	TOM + 6	2,000,000	2,000,000
		2,295,863	2,863,502

29) Other borrowed funds

	2003		2002	
	Short-term	Long-term	Short-term	Long-term
Loans from banks				
- In local currency	2,015,000	-	3,897,649	-
- In foreign currency	-	25,409,404	-	18,543,375
	2,015,000	25,409,404	3,897,649	18,543,375
	27,424,404		22,441,024	

30) Other liabilities, including tax liabilities

	2003	2002
Accrued interest	2,386,312	2,994,428
Amount waiting transfer to deposits accounts	1,545,975	1,234,175
Deferred income	227,492	706,972
Provisions for off balance sheet exposure (Note 32, Note 33)	2,361,583	2,824,169
Provisions for retirement and long service bonus (Note 32)	487,044	15,730
- retirement severance pay	357,057	15,730
- long service bonus	28,968	-
- holiday not used	101,019	-
Current taxes	19,524	732,254
Creditors	501,465	456,328
Salaries	367,180	324,361
Liabilities for unpaid dividend	23,625	22,980
Liabilities due to repurchase agreements	-	268,134
Other	285,889	131,742
	8,206,089	9,711,273

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

31) Deferred income taxes

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 25% (2002: 25%).

The movement on the deferred income tax account is as follows:

	2003	2002
At beginning of the year	968,636	795,239
Income statement charge	180,835	151,148
Investment securities (fair value remeasurment)	145,184	22,249
At end of year	1,294,655	968,636

Deferred income tax assets and liabilities are attributable to the following items:

	2003	2002
Deferred income tax liabilities		
Trading securities	474,711	311,660
Provision for loan losses	133,664	-
Available-for-sale securities	802,160	656,976
	1,410,535	968,636

	2003	2002
Deferred income tax assets		
Retirement and other employee benefits	115,880	-
	115,880	-

The deferred tax charge in the income statement comprises the following temporary differences:

	2003	2002
Retirement and long service bonus	(115,880)	-
Provisions for loan losses	133,664	-
Valuation of trading securities	163,051	151,148
	180,835	151,148

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

32) Provisions for liabilities and charges

	Provisions for off-balance sheet exposures (Note 33)	Provisions for retirement and long service bonus
At 31 December 2002	2,824,169	15,730
Additional provisions	3,076,852	474,649
Reversal	(3,539,438)	-
Charged to income statement (Note 10)	(462,586)	474,649
Utilized provision	-	(3,335)
At 31 December 2003	2,361,583	487,044

According to Slovenian legislation employees retire after 40 years of service. At the time of retirement the retiring employee who has fulfilled certain statutory conditions is entitled to a lump sum of SIT 1,059 thousand.

33) Contingent liabilities and commitments

Legal proceedings. As at 31 December 2003 there were not significant legal proceedings outstanding against the Bank.

Capital commitments. At 31 December 2003 the Bank had no capital commitments (2002: nil).

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts by the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

33) Contingent liabilities and commitments (continued)

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss, though not easy to quantify, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. While there is some credit risk associated with the remainder of commitments, the risk is viewed as modest, since it results from the possibility of unused portions of loan authorisations being drawn by the customer and, second, from these drawings subsequently not being repaid as due. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The following table indicates the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers.

	2003	2002
Guarantees and standby letters of credit	10,278,734	9,523,035
Documentary and commercial letters of credit	2,789,805	3,634,423
Commitments to extend derivative contracts	326,238	264,872
Commitments to extend credit:		
- Original term to maturity of one year or less	40,415,483	66,292,754
- Original term to maturity of more than one year	3,774,600	3,247,447
	57,584,860	82,962,531
Provisions for off-balance sheet exposures	(2,361,583)	(2,824,169)
	55,223,277	80,138,362

Assets pledged. Mandatory reserve deposits are held with Bank of Slovenia in accordance with statutory requirements. These deposits are not available to finance the Bank's day-to-day operations.

Pledging investment securities as collateral arises from the agreement on a special liquidity loan that the Bank shall, on the call of the Bank of Slovenia, acquire from it, and then extend it under terms and conditions it lays down, to the Bank that has been selected by the Bank of Slovenia. In the case that this special liquidity loan is taken, the Bank shall pledge first class securities. In 2003 this facility was not used.

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

33) Contingent liabilities and commitments (continued)

	Asset		Related liability	
	2003	2002	2003	2002
Balances with central banks	3,024,949	3,459,167	-	-
Investment securities (Note 19)	735,000	688,000	-	-
Treasury bills and other eligible bills	-	1,139,335	-	1,147,649
	3,759,949	5,286,502	-	1,147,649

34) Ordinary shares, share premium and treasury shares

	Number of shares	Share capital	Share premium	Treasury shares	Total
At 31 December 2001	531,359	5,064,890	877,532	(109,800)	5,832,622
Purchases/sales of treasury shares	-	-	93	637	730
At 31 December 2002	531,359	5,064,890	877,625	(109,163)	5,833,352
Purchases/sales of treasury shares	-	-	-	(48,985)	(48,985)
At 31 December 2003	531,359	5,064,890	877,625	(158,148)	5,784,367

The total authorised number of ordinary shares at year-end was 531,359 (2002: 531,359) with a par value of SIT 10,000 per share (2002: SIT 10,000 per share). All issued shares are fully paid.

In the normal course of its equity trading and market activities, the Bank buys and sells its own (treasury) shares. This is in accordance with the Bank's Articles of Association and complies with all aspects of Slovenian Law and the requirements of the Ljubljana Stock Exchange. These shares are treated as a deduction from shareholders' equity. Gains and losses on sales of own shares are charged to the share premium account. The total number of treasury shares at the end of 2003 was 13,033 shares (2002: 12,086 shares).

35) Reserves

	2003	2002
Legal reserves	1,157,333	944,787
Statutory reserves	17,895,290	14,401,928
General banking reserve	1,171,130	1,122,145
Revaluation reserves	3,690,247	3,341,186
	23,914,000	19,810,046

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

35) Reserves (continued)

Movements in reserves were as follows:

	Legal reserve	Statutory reserve	General banking reserve	Revaluation reserve
At 31 December 2001	652,501	-	12,425,888	3,242,699
Net gains/(losses) from changes in fair value	-	-	-	98,487
Transfer from general banking reserve	-	11,074,160	(11,074,160)	-
Transfer to reserves for general banking risks (Note 36)	-	-	(229,583)	-
Transfer from retained earnings	292,286	3,327,768	-	-
At 31 December 2002	944,787	14,401,928	1,122,145	3,341,186
Net gains/(losses) from changes in fair value	-	-	-	349,061
Increase of treasury shares fund	-	-	48,985	-
Transfer from retained earnings	212,546	3,493,362	-	-
At 31 December 2003	1,157,333	17,895,290	1,171,130	3,690,247

In accordance with local legislation, 5% of the net profit of the Bank is required to be transferred to a non-distributable legal reserve until such time as this reserve represents 200% of the share capital of the Bank. In accordance with Bank's Articles of Association, 40% of net profit of the Bank after distribution to legal reserve is required to be transferred to statutory reserves.

In addition, the Bank makes an appropriation to a general banking reserve for unforeseeable risk and future losses. General banking reserves can be distributed following approval by the shareholders in the general meeting.

The Bank has SIT 2,393,631 thousand available for distribution at 31 December 2003 (2002: SIT 4,436,957 thousand).

36) Provision for general banking risk

At 31 December 2002	1,120,592
Additional provisions transfer from general reserves	229,583
At 31 December 2003	1,350,175

37) Dividends per share

Dividends payable are not accounted for until they have been ratified at the Annual General Meeting. At the meeting on 16 June 2004, a dividend in respect of 2003 of SIT 3,500 per share (2002: SIT 4,850 per share) amounting to a total of SIT 1,814 million (2002: actual SIT 2,519 million) has been determined. The financial statements for the year ended 31 December 2003 do not reflect this resolution, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2004.

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

38) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than 90 days maturity:

	2003	2002
Cash and balances with central banks (Note 13)	4,193,111	2,545,529
Treasury bills and other eligible bills (Note 14)	5,531,531	776,200
Due from other banks (Note 15)	22,843,405	27,870,765
Trading securities (Note 16)	2,007,002	1,646,397
	34,575,049	32,838,891

39) Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. These transactions were carried out on commercial terms and conditions and at market rates. The volumes of related party transactions, outstanding balances at the year end, and relating expense and income for the year are as follows:

	Directors		Major shareholders	
Type of related party	**2003**	**2002**	**2003**	**2002**
Loans				
Loans outstanding at beginning of year	21,358	9,511	9,547,838	6,457,554
Loans issued during the year	1,000	20,064	87,723,019	65,126,090
Loan repayments during the year	(22,192)	(8,217)	(84,561,665)	(62,035,806)
Loans outstanding as at end of the year	166	21,358	12,709,192	9,547,838
Interest income earned	441	1,423	356,440	399,941

No specific provisions have been recognised in respect of loans given to related parties (2002: nil).

	Directors 2003	Directors 2002	Major shareholders 2003	Major shareholders 2002
Deposits				
Deposits at beginning of year	447,143	201,215	18,427,510	7,048,867
Deposits received during the year	357,377	850,351	119,103,608	376,945,589
Deposits repaid during the year	(483,012)	(604,423)	(122,652,916)	(365,566,946)
Deposits at end of year	321,508	447,143	14,878,202	18,427,510
Interest expense on deposits	21,341	17,512	728,692	1,057,262
Other revenue - fee income	-	-	120,109	137,381
Guarantees issued by the Bank and commitments	-	-	1,307,880	1,581,046

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

39) Related party transactions (continued)

Directors' remuneration

A listing of the members of the Management Board is shown on page 19 of the Annual Report. In 2003 the total remuneration of the directors approximated SIT 145,956 thousand (2002: SIT 177,245 thousand).

40) Post balance sheet events

The Supervisory Board gave a mandate on 28 February 2003 to the Management Board of Banka Koper d.d. to carry out all activities necessary to acquired the leasing business from Finor d.o.o. Banka Koper, Intereuropa d.d., Istrabenz d.d. and Luka Koper d.d. signed an agreement on 19 January 2004 to carry out the spin off. The Bank has taken up this financial activity with the aim to offer a full range of banking and financial services and products.

41) Reconciliation of net profit and shareholders equity from local standards (SAS) to IFRS

	2003	2002
Net profit under local standards	4,250,916	5,845,731
Amortisation of negative goodwill (not recognised under SAS)	(174,860)	35,811
Effects due to sale of subsidiary (the difference in capital gain between SAS and IFRS)	-	(1,681,706)
Exchange risk provision (taken to reserves under IFRS)	-	29,583
General risk provision (taken to reserves under IFRS)	-	200,000
Affects on adoption IAS 40 (not recognised under IFRS)	-	(42,084)
Exchange differences on derivatives (not recognised under SAS)	1,023	-
Remeasurment of loans to customers to their fair value (adoption of IAS 39 not recognised under SAS)	492,890	-
Remeasurment of off balance sheet exposure to fair value (adoption of IAS 39 not recognised under SAS)	41,769	-
Remeasurment of dealing securities to their fair value (adoption of IAS 39 not recognised under SAS)	652,203	604,588
Remeasurment of originated securities to their cost value (adoption of IAS 39 not recognised under SAS)	-	72,044
Retirement and long service bonus	(463,521)	-
Deferred tax charge (not recognised under SAS)	(180,835)	(151,148)
Net profit under IFRS	4,619,585	4,912,819
Net profit under local standards (SAS)	4,250,916	5,845,731
Total adjustments	368,669	(932,912)
Net profit under IFRS	4,619,585	4,912,819

(In the notes all amounts are shown in thousands of SIT unless otherwise stated)

41) Reconciliation of net profit and shareholders equity from local standards (SAS) to IFRS (continued)

	2003	2002
Shareholders' equity under local (SAS) standards	32,674,392	30,961,802
Share premium (the difference recognised under IFRS)	(648,663)	(648,663)
Treasury shares (taken as diminution of share capital under IFRS)	(158,148)	(109,163)
Retirement and long service bonus (not recognised under SAS)	(347,641)	-
Valuation of loans due to adoption of IAS 39 (not recognised under SAS)	369,668	-
Valuation of off balance sheet exposure due to adoption of IAS 39 (not recognised under SAS)	31,327	-
Valuation of investments due to adoption of IAS 39 (not recognised under SAS)	(656,452)	(656,452)
Valuation of dealing securities due to adoption of IAS 39 (not recognised under SAS)	1,424,132	934,980
Valuation of AFS securities due to adoption of IAS 39 (not recognised under SAS)	350,621	1,560
Valuation of originated securities due to adoption of IAS 39 (not recognised under SAS)	886,231	886,231
Amortisation of negative goodwill (not recognised under SAS)	581,268	756,128
Transfer of M banka profit (the difference in profit between SAS and IFRS)	216,437	216,437
Revaluation of intangible fixed assets (not recognised under IFRS)	(93,191)	(93,191)
Provision for general banking risk (not recognised under shareholder's equity in SAS)	1,350,175	1,350,175
Shareholders' equity under IFRS	35,980,156	33,599,844
Shareholders' equity under local standards (SAS)	32,674,392	30,961,802
Total adjustments	3,305,764	2,638,042
Shareholders' equity under IFRS	35,980,156	33,599,844

REPORT OF THE AUDITORS

To the Members of Banka Koper d.d., Koper

We have audited the accompanying balance sheet of Banka Koper d.d., Koper as of 31 December 2003 and the related income and cash flow statements for the year then ended. These financial statements set out on pages 49 to 95 are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the attached financial statement give a true and fair view of the financial position of Banka Koper d.d., Koper as of 31 December 2003 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

31 March 2004
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